USING FHA FOR HOUSING STABILIZATION AND HOMEOWNERSHIP RETENTION, PART II

HEARING

BEFORE THE

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USING FHA FOR HOUSING STABILIZATION AND HOMEOWNERSHIP RETENTION, PART II

Thursday, April 10, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:03 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Waters, Velazquez, Watt, Moore, Clay, Lynch, Miller of North Carolina, Green, Cleaver, Davis of Tennessee, Hodes, Ellison, Klein, Wilson, Perlmutter, Foster, Carson; Pryce, Manzullo, Biggert, Miller of California, Capito, Hensarling, Brown-Waite, Marchant, and Heller.

The CHAIRMAN. The hearing will come to order. This is the second day of hearings on what we hope will be our response to the ongoing foreclosure crisis. I would point out again, and I want to underline this, questions have been raised as we approach this about the phenomenon which is, I think oddly, known as "moral hazard." That does not appear to me to be a good use of the English language, but it is the fear that if you alleviate current problems, you will somehow reduce the barrier to people repeating that behavior.

One of the things I want to stress is that this committee last year, and then the whole House, pursuant to our recommendation, adopted legislation that will govern the mortgage business going forward. Our main protection against a repetition of the behavior that has led to the current crisis is a law that we hope will be enacted—and we hope the Senate will act—that will legally prevent a lot of what happened. So when we talk about diminishing the moral hazard aspect, we are not relying simply on people's experience; we are going to make it illegal.

I should also add that even if everything we are now proposing goes through, even if what the Administration has proposed, which is an expansion of efforts to help, if we do all that, it is hard for me to think that anybody who has gone through this, either as a lender or a borrower or a servicer, is going to say, "Gee, that was fun. I'm going to get on line and buy another ticket." I think the inherent difficulties of the experience—we are alleviating people's difficulties. We are not making anybody whole.

With that, I want to just thank our panel. We are here today to talk about Title 3 of the bill, and I will tell people that we don't know at this point what the legislative next steps will be. The Senate, as Members know and others, has acted on some pieces of a housing plan, a response. The Administration has a position. We put one bill together. It has three titles. I do not know whether it will be done as one bill, two bills, or as two or one bills as part of an overall package. That is something that the leaderships are now discussing.

The Treasury Department has weighed in, as people might know, urging that, for instance, the bill that this committee passed on the government-sponsored enterprises be made part of an overall package, because as the Treasury Department correctly points out, it has been the general decision to rely more on the Federal Home Loan Banks, Fannie Mae, and Freddie Mac, in the current situation, and the Treasury feels, I think quite correctly, that we should enhance the regulation as we do this. Necessity has required that they be given more authority, but we think that there ought to be more regulatory authority, including provisions for rental housing, which we added to the bill.

So, I can't tell people exactly what form the leaderships are going to settle on in moving forward, but we do plan to go forward. This particular piece is very important. I was reading Tuesday's New York Times yesterday—I was a little behind—and this was the story in the business section: "Metal scrappers have attacked churches and ransacked homes in this Midwestern city, leaving entire neighborhoods uninhabitable." This is from Cleveland.

Vacant property, substantially due to foreclosure, is a serious problem for cities in particular, property that once paid taxes to support the services our constituents need in increasing amounts have been transformed into consumers of tax revenues. Mayors have to send police officers, firefighters. The fire marshal of the State of Massachusetts told us that he has done a study which shows that vacant properties—not surprising, but it's always interesting to have it confirmed—are a serious source of fires and a major drain on fire departments. So you have the cities being given fewer revenues and more needs. It is of course also the case that foreclosed property detracts from those people in the neighborhood who are trying to keep up their property.

One of the issues we have is, well, why are you helping out some of these people who imprudently borrowed? The answer is the people who suffer when there is a foreclosure are not simply those whose homes are foreclosed, although they suffer the greatest, but people down the block and people across the street suffer as well with a deterioration both in the quality of life and the value of that property, and then the municipalities suffer and the States suffer because of the revenue losses.

So we have proposed legislation that would provide funds to our units of local government and we are going to be working on ways so that it goes through the States but with a requirement that there be cooperation with the cities. We are looking at numbers now. What we hope to do is give this money out in a formula which, as nearly as we can achieve, reflects the amount of foreclosed property. To that extent, if we are successful, it would be like other countercyclical fiscal programs. It would gets the money by definition to where the need is. People who do not have foreclosed property will not get any funds under this. It will go to where the need is.

We believe that putting a dent in the overhang of foreclosed property is important economically, socially, and in other ways. And we are open to conversations with those who administer the State and local governments about how best to do it. So we have a governor and three mayors, and we had asked for others.

Let me say, we do have a letter, which I will ask unanimous consent to put in the record. I actually have a number of things to put in, but I ask unanimous consent to put into the record the letter from the Governors Association signed by—I don't have the exact name—one Democratic governor and one Republican governor on behalf of the whole Governors Association in a bipartisan way endorsing this idea.

Obviously, we have details to work out, but the Governors Association has supported it. Obviously, we have mayors who are interested in it, and that is what we hope to work out.

It is my expectation that the committee will be voting on this on the 23rd of April, giving us basically 2 weeks from today's hearing, and hopefully, we will be able to do some of this on the Floor.

Are there any further requests for opening statements? I know the gentleman from New Hampshire had a statement. The ranking member of the Housing Subcommittee will be here at some point and will—oh, I didn't see my colleague, the chairwoman of the subcommittee, the gentlewoman from California, is here.

Ms. WATERS. Thank you very much, Mr. Chairman. I thank you for convening this second day of hearings. As I mentioned yesterday, I have personally witnessed block after block of foreclosed properties when I visited cities such as Cleveland, Detroit, and some areas of California. It is now crystal clear that any sound strategy for providing further stimulus to the ailing economy must include making Federal resources available for State and local government in partnership with nonprofits to purchase these properties and either resell them or operate them as affordable rental housing.

I feel strongly enough about certain issues that needed to be addressed in any such stimulus that I too introduced H.R. 5678, the Neighborhood Rescue and Stabilization Act. However, I am very pleased, Mr. Chairman, that your staff has been working with my staff, and you have included in your draft many of the concerns that I addressed in H.R. 5678. They have been working over the past few days, and they have particularly worked on the provisions of the draft that proposed solutions by way of loans and grants to addressed the foreclosed properties dilemma.

I am happy to report that I understand the next version of the proposal will include some key changes that I strongly endorse and that I had again included in my legislation. In particular, I am pleased that we will move to deeper income targeting. I believe strongly that any substantial investment of Federal resources in the homeownership and rental housing stock of communities must take into account the housing needs of very-low- and extremely-low-income families; that is, those earning below 50 percent of area median income and 30 percent of area median income, respectively.

These poorest households face a double whammy in the current crisis. Thanks to the push by the Administration and subprime lenders to increase homeownership at all costs, more such households are homeowners than ever before, 11.2 million nationwide, and 1 million in California alone. They are at great risk of foreclosure given their low capacity to withstand a financial disruption such as an interest rate reset. Not only that, extremely-low-income renters now face increased competition for an inadequate supply of affordable housing from slightly higher-income households who have been foreclosed upon.

In addition, some renters are facing eviction when, through no fault of their own, the homes they have rented enter foreclosure. Accordingly, I am pleased that the new version of the bill will require that fully one-quarter of authorized funds will target very-low-income households, and half of that amount must be targeted to extremely-low-income households.

I am also cognizant of the fact that it is a financing challenge to serve very-low- and extremely-low-income households. Additionally, the foreclosed and abandoned property aspect of the current economic crisis is filled with uncertainty, given that many of these properties are located in communities with rapidly shifting and sometimes nearly impossible-to-determine market values.

For these reasons, I have strongly advocated for providing as much assistance as possible in the form of grants, rather than loans that have an uncertain prospect of being repaid. Therefore, I am also happy that you have included increasing the grant portion of the bill from $2.5 billion to $5 billion, fully half of the authorized assistance.

Finally, I share the chairman's concern that Federal resources devoted to revitalizing foreclosed and abandoned properties should be invested in a coordinated and effective fashion. This said, it is a mistake to ignore the substantial capacity that exists in the governments of our Nation's largest cities, a point on which I suspect our first witness panel will concur. That is why H.R. 5678 proposed to distribute funds not just to States, but to large cities as well.

I understand, Mr. Chairman, that you will be modifying the current proposal to include funding of the country's 25 largest cities, which I think is a great approach. The key point is that we in this committee must move quickly to get consensus on a proposal that provides substantial targeted resources rapidly to State and local governments with the capacity to administer them effectively. This is because we already know that we are in for some tough negotiations with the Senate on their more modest proposal in this area.

I appreciate your willingness to listen to the concerns of your members, Mr. Chairman, and I thank you for including already in your draft some of those ideas that I attempted to address in H.R. 5678. I thank you, and I yield back the balance of my time.

The CHAIRMAN. I thank the gentlewoman. Let me at this point just read the list of people inserts:

We have a letter from the National Governors Association to the chair and ranking members of the two committees in the House and the Senate supporting this concept and making suggestions about how to do it. It is signed in support of this by Governor Granholm of Michigan, who is the chair of the Economic Development and Commerce Committee and a Democrat, Governor Rounds of South Dakota, who is the vice chair of the Economic Development and Commerce Committee and a Republican, and it is on behalf of the National Governors Association.

In addition, there is a letter from the League of Cities signed by Joe Davis, the alderman from Milwaukee who is chair of the National League of Cities Committee and National Model Development Committee in support of this. The Governor of Massachusetts, the mayor of Riverside, California, and the National Foreclosure Prevention and Stabilization Task Force, which endorses both yesterday's bill and today's, again, with specific suggestions. And that is a coalition which includes the Community Development Financial Institutions Coalition Enterprise, the Housing Assistance Council, the Housing Partnership Network, the Local Initiative Support Corporation, the National Alliance of Community Economic Development Associations, the Community Land Trust Network, the National Housing Institute, Housing Conference, and NeighborWorks Association.

I would note that our colleague from California, Ms. Sanchez, Ms. Loretta Sanchez, had specifically talked about the importance of them, and asked that they be able to participate in this hearing. We also have the National Vacant Properties Campaign; that is probably an organization that didn't exist a few years ago, the National Vacant Properties Campaign, and we hope to put it out of business. And finally, Smart Growth America.

These will be, without objection, put into the record.

The gentlewoman from West Virginia, the ranking member of the Housing Subcommittee, is now recognized.

Mrs. CAPITO. Thank you, Mr. Chairman, and I thank all the witnesses for coming today on a very important issue on the recent mortgage crisis and steps that we might take to address the impact on individual homeowners, the mortgage industry, and our economy in general.

The Center for Responsible Lending estimates 2.2 million Americans with subprime loans will lose their homes. The Mortgage Bankers Association reports that 550,000 homeowners with subprime loans began a foreclosure process in 2007. Clearly, we're facing difficult economic times, and the housing market, which was the engine driving this country's robust economic growth, is now a major factor in the economic downturn.

While I understand that many feel an urgency to move quickly on this legislation that will address the current mortgage crisis, I want to caution my colleagues on how important it is to make sure that we understand the consequences of our actions, and that we do it right. There is certainly enough editorial comment on both sides of the issues, some urging quick action, others making the case that action would only further prolong the current mortgage crisis and exacerbate the problems. It's difficult to know how best to proceed.

Several weeks ago, much of the attention pertaining to the mortgage crisis was focused on the potential resets and the ability of homeowners holding these loans to continue making their payments after the reset. Recent reductions in interest rates have made those resets less of a problem. Today the focus is more on those homeowners who are underwater, families living in homes that are worthless due to declining markets and the current mortgage on their home.

The change in focus serves to highlight the importance of being deliberate and cautious before taking action that may only exacerbate the crisis and weaken our economy. I have been very pleased to hear of the progress that has been made on both FHA modernization—although I would like to get that bill out of conference and onto the Floor—as well as a discussion of potential expansions of FHA Secure programs that have been created to assist homeowners with mortgages that have reset and are now having trouble making their payments. We must have a modernized FHA in order to properly respond to the current housing troubles as well as avoid future problems.

There have been efforts to expand the pool of homeowners. Ranking Member Biggert and I recently wrote to FHA Commissioner Montgomery, who was here yesterday, urging the Administration to implement administrative changes, which he has said they are going to do and willing to do, and I look forward to learning more about the progress of this program.

Whatever action this committee takes, we must be careful not to expose the taxpayers to undue risk when responding to the troubles in the housing market. Two programs that are already in place, HOPE NOW and FHA Secure, have helped over a million homeowners stabilize their mortgages by working with all involved in the process. I'd like to again thank Chairman Frank for holding this hearing and I look forward to the testimony of our witnesses.

I yield back.

The CHAIRMAN. The gentleman from New Hampshire had asked for time.

Mr. HODES. Thank you, Mr. Chairman. Thank you for holding this important hearing, and for taking a principled lead in an effort to provide relief for the foreclosure crisis and for keeping working families in their homes.

Yesterday this committee heard from the regulators and economists. We heard from Administration officials who expressed reservations about Chairman Frank's proposed legislation, and the White House has even weighed in against relief for homeowners. Yet the Federal Reserve has no qualms about lending Wall Street $30 billion. I don't necessarily think that is a bad thing, but if there is money for Wall Street, there surely has to be money for Main Street.

Many of my constituents are wondering whether Congress will act to help the folks who need help with their homes. Too often this Administration has advocated and adopted economic policies based on a top-down model. The lax regulatory environment over the past years, the tax policies we have seen, have led us in part to the crisis we are facing today, and working families and middle-class families are suffering as a result.

In my home State of New Hampshire, it is projected that 4,300 homes will be foreclosed by 2009. You can drive through neighborhoods in Manchester, Concord, and Nashua and see street after street with numbers of bank-owned sales and foreclosed signs on properties. There is a crisis out there, and it takes a toll on families, on neighborhoods, and on State and local budgets. As the chairman's remarks suggest, every foreclosure is like throwing a boulder into a pond; you get big ripples and bad effects.

So I look forward to today's testimony from our distinguished panel, whom I thank for being here. Today's testimony will highlight the true human cost of the foreclosure crisis when we hear about the impact it is having on local and State leaders. This input is important to understand how this committee should and must move forward as expeditiously as possible to provide relief for this crisis.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Are there any further opening statements? If not, we will go to our panel, and we will begin with Governor O'Malley.

STATEMENT OF THE HONORABLE MARTIN O'MALLEY, GOVERNOR, STATE OF MARYLAND

Governor O'MALLEY. Mr. Chairman, thank you very much for the privilege of being able to testify before your committee. Ranking Member Capito and the distinguished members of the committee, thank you for inviting me here today, and thank you also for your leadership on this looming crisis that is threatening to undermine the very strength and stability of America's middle class and therefore the security of our shared economic future.

The legislation I testify in support of today is critical to making progress in the face of this challenge. Mr. Chairman, over the last 7 years, we have seen an effort by some at the Federal level to do away with regulators, to create what the Congressman described as that lax regulatory environment, and now we see the results. Subprime mortgages, communities being preyed upon, and an unprecedented foreclosure crisis that threatens to undermine the strength of our middle class and the security of our shared economic future.

Government in fact actually can play a critical role in getting us out of this calamity and sparing countless thousands of families and neighborhoods the sort of damage that results from foreclosures. This, I might add, is why the work of this committee is so important. In Maryland, Mr. Chairman, we actually license loan servicers. We recognize that everyone loses when there is a foreclosure—lenders, borrowers, neighbors, communities, and so forth. So last summer we brought all of the various stakeholders to the table and assembled a task force that included consumer advocates, lenders, housing counselors, and representatives from government.

And out of their recommendations came something that the Washington Post referred to as the most sweeping legislative package yet enacted, and under our new laws in Maryland, families, prospectively anyway, will have more time to avert foreclosure, lenders will have more accountability, and future borrowers will be less likely to get into unsustainable mortgages.

In addition, we have new tools for going after those who prey on our most vulnerable citizens. But most of those benefits are prospective in nature. We still have a challenge with tens of thousands of families who are facing foreclosure now. So as an additional part of our strategy, we have been working with lenders to create products for which both government and private lenders share the risks associated with refinancing the loans of defaulted borrowers.

We are exploring ways to bring banks to the table as well. We have also created a program called Bridge to HOPE, which offers small, no-interest loans of up to $15,000 to help at-risk homeowners refinance and save their homes.

While all of these initiatives represent steady progress at the State level, our ultimate success depends on a successful partnership with our Federal Government playing an indispensable and critical role in this partnership. The legislation at hand is that important role, and I wanted to offer just a couple of thoughts on key provisions.

Number one, I strongly support language that would authorize $200 million per year for housing counseling. These sort of mitigation originators, if you will, who can work with homeowners to help them get the lenders on the phone. Federal funding for these servicers is already helping us produce some results in Maryland. Funding from the National Foreclosure Mitigation Program has allowed our State to expand our nonprofit network and significantly increase the number of homeowners we assist.

Number two, we believe the provisions regarding the acquisition and rehabilitation of foreclosed properties would help prevent vibrant neighborhoods, or neighborhoods that are starting to come back, from becoming vacant neighborhoods. This funding would not amount to a bailout, as some have suggested, but rather it would allow States and cities to target resources to save neighborhoods before they become blighted, and to allow us to mitigate the damage that is being done also to tens of thousands of homeowners.

I would like to also recommend that some of these funds in these provisions be made available to bridge funding programs like our Bridge to HOPE program in Maryland.

Mr. Chairman, whatever our efforts to date in Maryland, our Achilles heel is this, that we lack right now the resources that could be targeted in reasonable ways, in timely ways to mitigate the damage that is being done by a rising tide of foreclosures that is affecting some of our neighborhoods more disproportionately than others. Homeownership is the cornerstone of the American Dream. It is a pathway into the middle class for so many who dream of building better lives for themselves and for their families. To lose even one home is a tragedy. To lose hundreds of thousands is a threat to the strength and the vitality of America's middle class and to the security of our shared economic future.

I thank you for your leadership. These resources are critical to us in the States and our cities, and we thank you for inviting our input in this important matter today.

[The prepared statement of Governor O'Malley can be found on page 94 of the appendix.]

The CHAIRMAN. It always seemed to be a little presumptuous for us to welcome the Mayor of our host city. He is the one who should welcome us. And Mayor, we thank you for coming here as the Mayor of the City that hosts us and isn't always adequately recognized for that. Thank you for your testimony.

STATEMENT OF THE HONORABLE ADRIAN M. FENTY, MAYOR, DISTRICT OF COLUMBIA

Mayor FENTY. Thank you very much, Mr. Chairman, and members of the Committee on Financial Services. Thanks for inviting all of us to testify today on your proposal to reduce foreclosures affecting people in communities throughout the Nation.

You have no doubt heard from countless housing and economic experts as you have crafted the legislation we are discussing today, but my fellow mayors and former mayor and I are here today because at its core, this issue is not about numbers. It's not even about mortgages or interest rates. It's about people. Shelter is a basic human need, and my Administration hears every day from residents right here in our Nation's capital who need our help to keep their homes.

So I would like to express my full support for your FHA Housing Stabilization and Homeownership Retention Act of 2008, and to discuss some of the ways the bill would positively impact the people of the District of Columbia, as well as the entire Nation.

We must move quickly to shore up our national economy. We know that the effects of the subprime lending crisis have gone beyond housing to affect the economy as a whole. Here in the District, we are somewhat fortunate because the recent increase in foreclosures has been relatively modest, but the potential impact on our economic wellbeing is still significant. The ripple effect of foreclosures has been a tighter credit environment and declines in real property values. This is of great concern to me and other local elected officials.

An October of 2007 Joint Economic Committee report projected that there will be approximately 1.3 million foreclosures and a loss of housing wealth of more than $103 billion through the end of 2009 caused by the spill-over effects of foreclosures.

As of last fall, residents of the District had more than 11,000 outstanding subprime loans and had experienced almost 2,000 subprime foreclosures. While this is a fairly low rate in comparison to many States, the subprime lending crisis has still affected us quite severely through loss in home values, neighboring property values, and property tax revenues totalling over $257 million. In addition, we cannot know how many of the 9,000 remaining subprime loans in the District will end up in foreclosure.

Our local government offers a dedicated mortgage default and potential foreclosure counseling to clients who have fallen behind in their mortgage payments. As demand for this type of individual counseling has increased over the past year, some counselors have increased their services in response by providing specific foreclosure prevention "clinics" that are advertised in the community.

Your legislation would help District residents by offering direct assistance to homeowners in foreclosure and providing us with additional resources to support our existing affordable housing programs, especially those that use vacant or foreclosed properties. The legislation would also slow the rate of foreclosures regionally and nationally along with their potentially devastating ripple effects.

In the District, we have two homebuyer assistance programs—the Housing Purchase Assistance Program (HPAP) and the Employer Assisted Housing Program (EAHP). We have found that first-time homebuyers who took part in these programs have not fallen victim to the current mortgage foreclosure crisis at the same levels as other jurisdictions. We believe this is because all participants go through a comprehensive homebuyer training program. Also, the loan processors for these programs evaluate the borrower's entire home financing package.

Still for other residents of the District who are not first-time homebuyers or have purchased their homes without government assistance, the expanded HFA refinance options provided in this bill would be a helpful addition. We still have many people living under the weight of subprime mortgages, and in danger of mortgage foreclosure.

The bill's proposed Loans and Grants program also would be of tremendous assistance to the District. The scarcity of affordable housing has been a crisis for some time in our City. We have recognized the need for a funding tool such as this one to address the current market conditions and create the potential for new affordable housing development.

In the District's Fiscal Year 2009 budget, we proposed purchasing vacant land and buildings, including foreclosed properties, for affordable housing. The local funding that we proposed would allow the City to purchase up to 75 such single-family properties. The Federal funding proposed in your legislation would allow us to significantly expand our efforts to restore foreclosed properties to productive use.

The proposed Loans and Grants program would also support existing programs at the D.C. Housing and Finance Agency, including workforce housing assistance, simplified financing for developers of affordable housing, and below-market rate mortgages for families.

In conclusion, Chairman Frank and committee members, I have often said that the future of this country lies in its cities. It is in the Nation's cities that you will find models of diversity, sustainability, and productivity. For our cities to thrive, we must protect the residents who live in them. Thus, I want to thank you in advance for your efforts to get this legislation passed, and I would be happy to answer any questions.

[The prepared statement of Mayor Fenty can be found on page 72 of the appendix.]

The CHAIRMAN. Thank you, Mr. Mayor.

Our next witness is the Mayor of the City of Boston. I am particularly pleased that he is here, because there are people in greater Boston who are not always able to distinguish between us, so having us both in the same room at the same time, I think, will therefore be very useful.

Mr. Mayor?

STATEMENT OF THE HONORABLE THOMAS M. MENINO, MAYOR, CITY OF BOSTON

Mayor MENINO. Thank you. I think that is so true.

Members of this committee, thank you for having us here today. I also recognize my Congressman, Congressman Lynch, for all the great work he does for our City every day.

You have asked that I focus my remarks on Section III of the Act, which provides loans and grants for States for foreclosure mitigation and relief. This important legislation comes none too soon. Boston's foreclosure rate is 2.5 percent. For people who complete our classes and receive our financial help, it is even lower, less than 1 percent. Despite our successful programs, every day we see how the meltdown of our financial system is affecting the lives of people who live in our neighborhoods and call Boston home.

Last year, lenders foreclosed on 700 homes, more than 3 times the level foreclosed the year before. By the end of 2008, we project another 1,000 foreclosures; one foreclosure is one too many.

We have 250,000 homes in our City. Approximately one-half of one percent of this housing stock was foreclosed on, representing 1,200 housing units. This may not seem significant, but here is the problem: Our foreclosures are concentrated in the poorest neighborhoods of our City. They are located where thousands of hard-working people have scraped together money to buy homes through the City's programs. They are located in neighborhoods where the City and its partners have invested millions of dollars in State and Federal resources to produce high-quality, affordable rental units.

So even though our numbers are relatively low, the impact is huge, and not just for the families who are being foreclosed on. There are problems for people who live next to the boarded-up foreclosed buildings—buildings that can quickly become un-boarded, and provide opportunities for drug dealers, chop shops, prostitutes, and other illegal activities. We have worked too hard to make these neighborhoods into thriving places to live and work.

We can do better. We must do better. This brings me to the legislation. There is one thing I want to leave you with today, and it is this—a sense of urgency. We must act now.

At the local level, I see the impact of these foreclosures. I know that anyone who takes a look at a street of foreclosed properties comes away with the same feelings I do, frustration and impatience. We want to take immediate action before more families lose their homes, their sense of security and hope, and before more properties become vacant. The people who live in these neighborhoods see the property values decline and crime increase.

I have some specific comments about Section III. I know that you will consider my remarks in the spirit which I raise them—to make this legislation the best it can be.

Section III ties funding to the number of foreclosures Statewide as a share of foreclosures nationally. Some States like Massachusetts, which have relatively few foreclosures, have cities like Boston, with concentrated foreclosure activities. I urge you to look at the formula with this in mind, design it so that high-impact pockets of foreclosure receive resources and assistance.

In general, I believe the focus on States seems to be misplaced. Target the resources and the response to what is happening. Cities and mayors in particular are the ones dealing with this foreclosure crisis every day.

My understanding is that States will develop their plans and that funding comes once the plans are approved. Remember Homeland Security. Think how long it will take for States to get the information from cities like Boston, from smaller communities, then accumulate them and digest the information. We can't afford to wait.

We have proven tools and processes that work. I urge you to consider utilizing the CDBG allocation process, where larger cities with the capacity can develop their own plans, have States work with communities that do not have local capacity. I strongly urge you to provide direct funding to cities like Boston.

I want to focus now on the reality of foreclosures—dealing with the servicers. My comments are based on our experiences in purchasing foreclosed property in the Hendry Street neighborhood of Boston. We have two 3-deckers and two other 3-deckers that have been converted to condos, for a total of 12 units. We also have plans to purchase additional houses.

I strongly urge you to think about the mechanics of buying from the servicers. Otherwise, the legislative goals will not be achieved, and our neighborhoods will continue to be plagued by these properties. Dealing with the servicers and their Realtors is extremely time-consuming. Realtors have no authority, and must get servicers' approval to sell. Servicers are overwhelmed with the number of properties they own, and I question whether, at a national level, they have the capacity to move with the speed this legislation envisions.

In some cases, servicers don't even know whether properties have completed the foreclosure process, so they are selling without having the right to sell. We were successful in Boston because I established relationships with some of the servicers beforehand.

So I just—I know my time is up, and I would like to say that this is an issue that faces us in our cities. The key to this issue—I had a meeting last week, I brought the servicers in to work with us on potential foreclosed property. And when we had them face-to-face, we were able to work out a lot of these deals.

But if you have any legislation here that is going to bring or send monies back to our localities, it has to go through the cities, because—with all due respect to my government friend here, if they go to the State, it takes a long while to come up with formulas. We need this money locally.

Thank you for your time, and also I want to leave a thought, this thought, as this committee continues to address housing and credit issues: Will you make sure that lenders continue to meet the CRA obligations in the new lending environment? This includes access to credit and being part of the rebuilding of communities that will get us past this crisis.

Thank you for allowing me to testify this morning.

[The prepared statement of Mayor Menino can be found on page 90 of the appendix.]

The CHAIRMAN. It looked like your former mayoral colleague wanted to respond briefly.

Governor O'MALLEY. As a point of personal privilege, once a mayor, always a mayor. And I agree with a great amount of what Mayor Menino—

The CHAIRMAN. Well, I appreciate that and I will say this—and people in Boston will tell you—that when it comes to the phrase, "Once a mayor, always a mayor," they do believe that Mayor Menino has taken that as his motto.

[Laughter]

Mayor MENINO. I also have—I'm pretty sure he'd like to have all—

The CHAIRMAN. We will put that into the record. We are also very pleased to have Mayor Goodman of Las Vegas. Mr. Mayor, please go ahead.

STATEMENT OF THE HONORABLE OSCAR B. GOODMAN, MAYOR, CITY OF LAS VEGAS

Mayor GOODMAN. Thank you very much, Mr. Chairman, and distinguished members of the committee. I am honored to appear before you this morning to discuss issues of national importance as well as a pressing need in my City.

Of course, I adopt the pertinent comments of those who preceded me this morning, but this is an issue that not only affects people, as everybody recognizes, but also affects the way cities conduct their business as a result of this crisis.

Las Vegas is a City of 625,000 persons situated in Clark County, Nevada, which has a population of 1,900,000. It is the largest city in Clark County, and we have been very fortunate in our area to be a community that has grown phenomenally in the past 10 years, not only in size, but also as far as an unprecedented prosperity.

We are building tens of thousands hotel rooms, and what that does is it gives people a reason to want to come to Las Vegas and to that area, in order to find the American dream. We have about 6,000 people a month who come into our community, and they all want to partake in what makes America a very special place—they want to buy a home.

It got to a point about 3 or 4 years ago that they were standing in line, getting lottery numbers, and sleeping out overnight in order to buy homes. There was a crisis in that there weren't enough homes to satisfy the needs of those who were moving into our community. Now just the opposite has taken place, and this feeling of perhaps invincibility that we had experienced is no longer with us, and we recognize that we have a tremendous issue in trying to address our needs, not only as far as taking care of the people who find themselves in this very difficult spot, but also in running government.

Clark County is experiencing over 90 percent of the foreclosures in the State. They have tripled from 2006 to 2007; we have gone from 20,000 foreclosures to 60,000 foreclosures, and 60 percent of our homes are experiencing negative equity. Property values—and you can imagine this—people taking their hard-earned money, as mentioned before, have dropped in Las Vegas by 20 percent, and nearly half of the homes currently on the market are due to foreclosures.

This has had a devastating effect on the way we look at our communities and our neighborhoods. I remember when I was first elected, the definition for blight was a broken window. And now blight is defined in vacant homes in neighborhoods, and this has resulted in increased crime, deteriorating property conditions—nobody is there to take care of the homes—and undue pressures on the City to provide services as far as code enforcement is concerned. Our fire department is overtaxed as well as our police force in addressing these issues. And I think perhaps the worst thing is that families are at risk of becoming homeless. Homelessness had been an issue before foreclosures; now it is an issue that faces us every single day.

There is also the issue of the loss of tax revenue as far as State and local government. Construction represents 10 to 12 percent of our local economy, and the issues created by slumping new and resale home sales, foreclosure sales, and post subprime lending, credit crunch have impacted all of the major revenue sources of the city, such as property tax, sales tax, real estate transfer tax, license revenues, and that results unfortunately in budget cuts. We had a deficit of $20 million in our budget this year. We have had to tighten our belt. And the worst of it is, for the first time in our memory, we had to lay off some of our employees as a result of this situation.

So I applaud the efforts of the chairman and those who are in support of this particular legislation. It is going to not only help us as far as the foreclosures, but I think in some ways, some good could come out of the bad in the sense that the $10 billion which is proposed for cities to purchase and rehabilitate vacant, foreclosed homes in order to get people into them as soon as possible will go to satisfy issues of affordable housing, which we face every single day in our communities.

I would join my colleagues in suggesting that the monies come directly to the municipalities for distribution rather than be filtered through the State. We have had a history with that kind of filtering, with Homeland Security funds that we don't believe that the funds reach us quickly enough, and this is a matter that has to be addressed immediately.

So I applaud everybody on the committee for bringing this much-needed legislation forward and for your commitment to dealing with this foreclosure crisis.

[The prepared statement of Mayor Goodman can be found on page 83 of the appendix.]

The CHAIRMAN. Thank you, Mayor. Let me say that I am going to set a good example here. We have another large turnout of this very large committee reflecting the interest in this subject, so we are going to hold everybody, myself included, to 5 minutes. If there is a question pending, a witness will be allowed to answer it, but we are going to stick to the 5-minute rule.

Governor O'Malley, let me ask you, and we were discussing this earlier, I have been struck—and it is obviously related to the foreclosure issue—by the questions we have had about the ability or willingness of servicers, who are so critical here, to help.

We are going to be putting, I hope, a number of programs, and even, you know, the Administration yesterday announced a program that is more aggressive than we have seen—but a lot depends on, as I said, the ability and the willingness of the servicers to move here. And I just would be interested in your—what has your experience—Maryland has laws on servicers and a lot of other places don't—been with the servicers in trying to get these issues resolved? If you want to have members of your staff join you, we could accommodate that.

Governor O'MALLEY. Sure. I'm joined to my right by Secretary Tom Perez, from our Department of Labor Licensing and Regulation, who chaired the task force that resulted in the legislation that we passed in Maryland. We found that the loan servicers were willing to come to the table and help us work on the legislation, moving forward prospectively.

What we have not found is the same willingness to renegotiate the loans that they have the power to renegotiate, so homeowners can stay in their homes, making their payments on a monthly basis for a sustainable mortgage. And it has been very frustrating to us.

We're trying to come up with new products. This legislation would help us, but there has been some considerable foot-dragging when it comes to actually renegotiating the terms of some of these mortgages, and taking the write-down, if you will. And I suspect that they're probably waiting for something to happen here before they're more amenable to that.

May I ask, Secretary Perez, do you want to—

The CHAIRMAN. Yes. Without objection, I want to ask him if he—

Secretary PEREZ. Good morning, Mr. Chairman. The most important data point I learned in our meetings with servicers—and we have had two lengthy ones—is they told us that 75 percent of the people in distress that they are dealing with, under the terms of their contracts with investors, they have substantial discretion to modify the terms of the loan.

My initial hypothesis was that the reason we had so few meaningful modifications was that the contracts were preventing modification. That's simply not true. And so I think the explanation of why we have such a wide gulf—Moody's did a study showing that something like 2 percent of people in distress were having meaningful modification. So there is a gulf between action and words, and I think the capacity exists, the legal authority exists to modify. It's a matter of will, and—

The CHAIRMAN. Well, I appreciate that. Mayor Menino made a point that hadn't occurred to us before, which in some cases is a capacity, not a legal authority, but an actual technical capacity. And I am more and more convinced from what we have heard that we probably will want to ask the servicers to come in and meet with us in a more relaxed setting and see how we can be more helpful.

Mr. Mayor?

Mayor MENINO. Yes, Mr. Chairman. Last December, I brought seven of the servicers into my office, and I told them we need to work together. Just 2 weeks ago, we had a fair, a housing fair, with anyone who was in danger of foreclosure. We had the servicers there and the folks in danger of foreclosure. We worked out many deals between the servicers and the folks who had a mortgage that was in danger of foreclosure.

This was the first time they ever met. You know, it's not dial-a-number, press one for this. They sat face-to-face. Let me tell you, it was very successful Saturday.

The CHAIRMAN. I appreciate it. I think we are going to be following up on this.

I am going to give back some time now, so we can speed this up. The gentlewoman from Illinois, the former ranking member of the

Housing Subcommittee, and current ranking member of the Financial Institutions Subcommittee.

Mrs. BIGGERT. Thank you, Mr. Chairman. Thank you for holding this hearing. The bill includes $10 billion in loans and grants to let State and local governments buy out foreclosed properties, and sell them, and then Mayor Goodman suggested that maybe we should look at doing this through CDBG instead of the housing finance agencies. I would like to get a comment from the other mayors and the former mayor, who might have a difference of opinion, being now the governor. But which of these methods do you think we should look at, Mayor Menino?

Mayor MENINO. I would like to see it used, the CDBG formula that has worked for so many years, and it comes directly to the city, and we're able to parcel it out to the folks who need it the most. I always find that in all due respect to my colleague, when he sends it up to the State, there's all kinds of bureaucracy, and they take 12 percent for administrative costs and all that. It goes directly to your locality, where you're able to dole it out to the people who need it as quickly as possible, because there's an urgency we have in our city and in many cities in America today.

Mrs. BIGGERT. Now I might just put a caveat in here that this is $10 billion and I don't know how U.S. taxpayers will react to the cost of this to them. But I just want to get it on the record, the difference. So, Mayor Fenty?

Mayor FENTY. I would say both are good, first of all, but if given a preference definitely CDBG dollars, given the amount of flexibility that would give to municipalities, especially around the foreclosure areas. So, glad to put that on the record.

Mrs. BIGGERT. Do you see too that the State sometimes—well, of course you don't have a State, do you? So you don't have to worry about that?

Mayor FENTY. That is another hearing.

[Laughter]

Mayor FENTY. But I think I empathize with everyone who says you want to be nimble, and we have to move fast. So I understand what the mayors are saying.

Mrs. BIGGERT. Thank you. Governor O'Malley?

Governor O'MALLEY. Yes, Congresswoman. You know, regardless of what that formula is, I think what all of us agree upon is that it should be flexible and should allow us to get the dollars to where they can do the most good, namely to the people who are suffering the most.

So if there's some sort of—in our State, for example, I mean if you look at us Statewide, one, we have 1 out of every 500 homes that are going through some sort of foreclosure event. If you look at one county in particular, Prince George's, the ratio is 1 in 72, so we would want to target those dollars to where the problems actually exist. I would have no problem in making sure that some goes directly to the cities. I think cities generally—large cities generally do a much quicker and better job, quite frankly, of getting dollars to the problem. And that can't be debated.

However, there are counties that might not be in line but are also suffering. So I think that's why the formula of trying to target it to where the foreclosure events are actually happening is the way to go. If it were strictly CDBG, you might have dollars going to places that are not necessarily impacted as greatly as others are by the number of foreclosures.

Mrs. BIGGERT. Thank you. Mayor Goodman, would you like to add anything to that?

Mayor GOODMAN. No. I believe that the position that we have asserted is probably the most expeditious way to have the monies placed in the hands of those who need it the most. And one of the I think pleasing aspects of the proposed legislation, and it's in response to $10 billion being spent of taxpayer money, is much of this proposal provides that if there is a sale of the property, that the money will be recompensed. And I think that is something that the American public would be happy to hear. But in the meantime, we're taking care of a very serious issue.

Mrs. BIGGERT. And then, just quickly, you know, the—are you cutting me off?

The CHAIRMAN. No. I don't know what that was.

[Sound system crackling. Laughter]

Mrs. BIGGERT. The Senate bill temporarily lifts the Federal cap on tax-exempt State-issued mortgage revenue bonds. So this would allow States to use investor-raised funds to help owners refinance.

Governor O'Malley, do you think that this is a good idea?

Governor O'MALLEY. I think it's a great idea. I mean that has been our Achille's heel so far. Like some of the other mayors at the table, we were able to get loan servicers together, and we were able to do a little better job of matching up the nonprofits that were overwhelmed with homeowners trying to reach somebody besides the 1–800 numbers and the push buttons.

So we've done a slightly better job at that. What we have yet to accomplish, though, and what this could help us accomplish, is to create that pool of dollars that would allow us to refinance homes, refinance mortgages, so that we can keep people in their homes. That's not possible everywhere, but for a lot of homeowners, that little bit of help could be the thing that preserves the block, preserves the neighborhoods, and that's why this could be very helpful.

Our Achilles' so far, our Achilles' heel in our mitigation efforts has been the inability to come up with those funds that can go directly to helping homeowners and save neighborhoods.

Mrs. BIGGERT. Thank you. I yield back.

The CHAIRMAN. I thank the gentlewoman. We will now turn to the gentlewoman from California, the chair of the Housing Subcommittee, whom I think you will find anticipated some of the issues that were raised by some of the mayors, not surprisingly given her involvement in the City of Los Angeles. Ms. Waters?

Ms. WATERS. Thank you very much, Mr. Chairman. I am extremely pleased that we have this panel of mayors and individuals who really understand what it takes to deal with this foreclosure crisis in their cities. And the recommendations that you have made are consistent with some of the information that had been shared with me and therefore the draft discussion of the bill does not include all of the additional modifications that we have made. As you know, or perhaps should know by now, we are up from $10 billion to $15 billion. We have a 50/50 arrangement with $7.5 billion in zero interest loans and $7.5 billion in grants. Prior to that, it was a 75/25 loan-to-grant ratio. Also, we are making sure in this bill that we have direct funds to cities; States must direct funds to the 25 most populous in the Nation. Also, the 50 percent of the grant money targeted to those at below 50 percent AMI, with 50 percent of the grant money targeted to those at or below 30 percent AMI, States can obtain a waiver but the latter requirement only no deeper target in the discussion draft. I guess what I am trying to share with you is we did anticipate some of the needs of the cities, and we have tried to make those—include those in the bill and of course this hearing today may provide us with some additional information. But I think certainly direct funding to the cities, more money, will give you better control over how to deal with the problem.

The CHAIRMAN. The gentlewoman from West Virginia, the ranking member of the Housing Subcommittee. Mr. Mayor, you know you have been joined by your colleague from Nevada, one of the newer members of our committee, and we are glad to have the gentleman from Nevada, Mr. Heller, with us. Ms. Capito?

Mrs. CAPITO. Thank you, Mr. Chairman. I would like to ask the governor about one of the programs that you mentioned that is fairly new, Bridge to HOPE, where you give deferred loans to help people. Are you getting much action on this? I know it is fairly new. Are people accessing this? I am thinking on the one hand that sounds great, on the other hand, I am thinking if you are already having trouble meeting more obligations, taking on another loan, is that a challenge, and how have you worked through that?

Governor O'MALLEY. It has been slow going, it has been difficult. We have a number that we put out. We are going to be doing a lot more outreach to people and making them aware of this. Here is the Catch-22 that we found ourselves encountering, it was that there were some people who could in fact—who might be able to refinance and get into a more sustainable loan but only after they became current on the loan for which they were behind. So, of course, if they were current on the mortgage that they had fallen behind on, they would not need to refinance in the first place. So this Bridge to HOPE loan does not help everyone. There are some homes that cannot be saved but it is our hope that there will be some people in that delta, if you will, that if they were to become current, could go forward.

There are other issues involving credit ratings and the like as underwriting standards become tougher that we are also overcoming. We have not had as many people taking advantage of it as we would have hoped.

Mrs. CAPITO. Thank you. Mayor Fenty, it is a beautiful city and I am privileged to be working here. I have a question on your first-time homebuyer tax credit.

The CHAIRMAN. If the gentlewoman would yield?

Mrs. CAPITO. Yes.

The CHAIRMAN. Mayor Fenty pointed out, as we all know, when something happens in your home district, you are not as available as if you went a couple of hundred miles away since then nobody can bother you. The mayor is here and he does have to leave at 11 a.m., so if that is the case, Mayor.

Mayor FENTY. Probably no later than 11:15.

The CHAIRMAN. Okay, well we can finish this question. When you have to leave, please feel free to do so.

Mayor FENTY. Thank you, Mr. Chairman.

Mrs. CAPITO. Thank you. I am interested in the $7,000 tax credit for first-time homebuyers. I believe the Ways and Means Committee yesterday passed something similar. Are you finding that is increasing first-time homeownership for first-time homebuyers? What kind of effect is that having on the housing market in D.C.?

Mayor FENTY. Well, it has had a fabulous effect over time. It started, I think, as a $5,000 home credit, and what we find with that program, as with so many others, is that the price of real estate is going up and it just needs to be increased, so the more money that we can put into it, the more we will get at this problem.

I think one of the number one things that we would just like to emphasize is that the money that would go directly to foreclosure relief and mitigation in this legislation is extremely important. We have so many either abandoned or neglected properties in the District of Columbia—you probably read a lot about it in the Washington Post—that the ability to take those dollars and then pump them back into either abandoned or vacant properties or properties that have been foreclosed on and then make them into affordable housing. That is where we really see the big problem in cities like Washington, D.C.

Mrs. CAPITO. Thank you. And one final question for the Mayor of Las Vegas: You mentioned in your testimony that property values have dropped in Las Vegas by 20 percent?

Mayor GOODMAN. Twenty percent and new home sales have dropped 49 percent from last year to this year. The banks are selling the foreclosed homes at 35 to 50 percent below the peak levels that they were in 2004.

Mrs. CAPITO. Do you expect that—in what way do you think this kind of legislation, the proposal that we are talking about today, could stabilize housing prices? Do you think that is going to have an effect or what are you looking at long term, obviously you cannot recoup 20 percent right off the bat?

Mayor GOODMAN. Not right off the bat. We are very optimistic. I do not want to have a cloud of pessimism over how we look at our future in Las Vegas. So we are usually the first ones to come back from a recession based on the nature of our economy, and these homes will regain their value some day. The prediction perhaps is that markets are going to come back in about 2 years. What I am looking for is relief right now to make sure that those persons who are in homes that have foreclosure issues will be able to stay in those homes so that they do not hit the streets and become homeless. And we have some very affluent parts of our community at this point where I am advised, surprisingly to me, that they are looking for food baskets because of the nature of the economy. So I think it is a very tenuous time in our history as a country and certainly in our community because we have rode the crest, so to speak, and this is the first time we are looking at hard times.

Mrs. CAPITO. Thank you and just a final comment. I really appreciate your perspectives as mayors, and with the governor being a former mayor, as I look at my own State of West Virginia, we have a very low foreclosure rate of 47 percent, which we are very proud of, but there is an area, it is actually close to the Washington, D.C. metropolitan area, Shepherdstown, Martinsburg area, where a more targeted view or helping hand would be most appropriate rather than generalizing so it tends to get diluted a lot if it has to go through the filter of the State. But I thank you all very much. I yield back.

The CHAIRMAN. Well, I thank the gentlewoman for those remarks. I just hope that—there are people who tend to be somewhat cynical of hearings but this is an example I think of an issue upon which we are focusing more. The gentleman from North Carolina?

Mr. WATT. Thank you, Mr. Chairman. I want to take the 4 or 5 minutes to say that I agree with the concerns that have been raised about the specifics of the bill, getting them targeted more specifically to local communities and particular areas even in local communities, so the input from the panel has been good. I would just say that in a speech that I made to local housing authority people a couple of weeks ago, I raised the prospect that we could take the lemons that we have here and make some lemonade out of them, the lemons being chronic homelessness and the unaffordability of housing. This crisis has had the effect of making housing available if we use it for the purpose of addressing homelessness and the unavailability of affordable housing. And we could take this and turn it into something that could have some positive impacts in our communities if the funding were there, about the same time our chairman was out actually putting the mechanism in place to authorize such a program and propose that the funding in fact be made available for this purpose. So we have some opportunities here, given the substantial reductions in housing values now that have taken place, and the substantial availability of housing to do some things if we will take advantage of it. And I am hopeful that we can pass this bill and create the mechanism to make it easier to turn those lemons into lemonade, at least in some cases.

So with that, Mr. Chairman, I will yield back. I don't have any questions.

The CHAIRMAN. I thank the gentleman. We have a couple of votes and we should be back in a half hour or so. Mr. Mayor, Mayor Fenty, thank you for joining us. And if the other panelists can wait, we will be back shortly and there is a lot of interest in this, and we will finish this up and we will get to our next panel. So the committee will be in recess, and I urge the Members to come back. There are three votes, two 5-minute votes after this one.

[Recess]

The CHAIRMAN. We will reconvene. I regret—I was not informed that we had a swearing-in of a newly-elected Member, which delayed us, and I regret that because I appreciate your time. We will begin the questioning with the gentleman from North Carolina, Mr. Miller, who has been as active in trying to deal with the subprime crisis as any Member of Congress and in fact, had he been listened to several years ago, we would not have had one. So the gentleman from North Carolina?

Mr. MILLER OF NORTH CAROLINA. Thank you, Mr. Chairman. I have questions about a concern for adverse selections but they are not the same concerns about adverse selection you have heard from over there or that have been expressed from over there. There is no doubt that the problem that we have now was not caused by lenders trying too hard to make homeownership possible for people who would not otherwise qualify for traditional mortgages. The problem we have now was caused by predatory loans, loans that were designed to strip equity from homeowners as housing values appreciated.

When I first came to Congress 5 years ago, subprime loans were about 8 percent of all mortgages. And the features that made most of them subprime did bear some kind of actuarial relationship to the risk, the greater risk that the borrower posed, although even back then, I think Freddie Mac estimated that 25 percent of subprime borrowers qualified for prime loans. In 2006–2007, the period that is causing our current problems, subprime loans jumped to 28 percent of all mortgages. And according to the Wall Street Journal, 55 percent of the borrowers in subprime loans qualified for prime loans. Ninety percent, 89 to 93 percent of those loans had an adjustable rate with a quick adjustment after just 2 or 3 years, usually a jump from about 7 percent, not really all that much of a bargain in the first place, and the increased premium might be 30 to 50 percent. That was typical. Seventy percent had prepayment penalties. Those were loans that were obviously designed not to be paid, to become unpayable so that the borrower would have to come back and refinance, to have to borrow again and would have to pay a prepayment penalty to get out of the last loan, to have to pay points and fees to get into the next loan. They would never own their home outright. And if they stayed in that cycle for very long, they would lose their home.

The most catastrophic have been those who have lost to foreclosure. Mrs. Capito said 2.2 million would lose their homes, now that is how many will lose their homes to foreclosure. That is how many people will be escorted from their home by the sheriff after a judicial sale of their home, but there are millions more who have still been victims of abusive lending practices, parasitic lending practices. If people still have some equity in their home, they can still sell their home, they do not have to have it foreclosed, they can get out, and in fact we have already seen the homeownership rate decline from what it was 3 years ago by about 1.4 percent. From 69.2 in the fourth quarter of 2004 to 67.8 in the fourth quarter of last year. When the numbers come out for the first quarter later this month, it will show a further decline in the second quarter, the third quarter, the fourth quarter, it will continue to decline. And those are families who have had their homes foreclosed and families who were able to get out by selling their home, but they have still lost their homes.

In addition, and particularly since 55 percent of the people qualified for prime loans, there are a lot of people whose economic circumstances were not so fragile and they were able to refinance, and they have kept their home but they lost a big piece of the equity in their home of their life savings, their net worth, when they did it because of the loan that they were in.

All the industry has been willing to do to this point has been voluntary. And all they have volunteered to do, when you look closely, has been to modify the mortgages where they knew they were not going to get paid, and they only agreed to modify the loans to take the most that they could possibly calculate they would get paid, a very careful calculation of how much they could possibly get paid and then that is what they agreed to take. And they announced this with great fanfare as if they expected a humanitarian award for it.

I have no doubt that the loans that they will voluntarily sell will be the biggest problem for them, although they are taking a haircut, they are not going to sell us, the government, those loans unless they are pretty sure that they are going to come out better by selling those loans to us than they would if they kept them on their books.

Now, there are a lot of other loans where they are still enforcing prepayment penalties. They are still taking the most they can. They are not modifying unless they have to. Should we agree to buy the worst loans without any expectation about the other loans? Should there be some link between buying these loans, the ones that they voluntarily sell to us at a discount, and how they act with respect to the other predatory loans that are still destroying the finances, taking the net worth of middle-class families.

The CHAIRMAN. Let me just say in fairness to the witnesses, they were asked to testify about the piece about buying the foreclosed property, not the piece that we had the hearing on yesterday. These are specifically local officials, here to talk about buying foreclosed property, but if anyone wants to comment, please go ahead.

Governor O'MALLEY. I will just say generally that I think that anything that you can do to put pressure on the servicers, on the lenders, to mitigate the damage that is being done would be helpful. We have not seen the degree of flexibility that should be given the magnitude of this crisis. I am not sure exactly what the reason for that is, but anything you can do to push them towards that would be helpful.

Mayor MENINO. Mr. Chairman, in the last several months, I have had some success dealing with the servicers. Initially, I brought them into my office and had a conversation with them about the magnitude of the problem, and we agreed at that time to have an event at one of our areas of the City to bring all the servicers in who are there, six of them, and the people who had mortgages. And during the course of the day, we were able to re-write a lot of those mortgages. If you saw some of those documents, that people who are making $60,000 have $4,000 a month in mortgages, and how that was going to increase in 2 years, it was a disgrace how those mortgages were written. They were able to re-negotiate some of them. I hear the chairman is going to bring the servicers in, and I think you have to also get the banks to put some pressure on the servicers to come to the table, and I think you will get some reaction from the servicers as you move forward.

The CHAIRMAN. The gentleman from Nevada?

Mr. HELLER. Thank you very much, Mr. Chairman. I appreciate your bringing this bill forward. I truly do believe that there is a government role in solving this particular problem, I am just not sure what it is today as we go through this piece of legislation. And I want to thank the panel for being here today, I truly do appreciate your input and it is very helpful in determining what direction we ought to go on this. But I would like to direct my questions towards the Mayor of Las Vegas, Mayor Goodman. As I look at some of these statistics that you have in your community, for example, and tell me if what you understand this is accurate. I know the first one is and that is averaging one foreclosure for every 154 households in Nevada. I know the national average is one in 555. But in Clark County, is it true that nearly one in 20 homes is in foreclosure?

Mayor GOODMAN. I would say at least that.

Mr. HELLER. One in 20 homes?

Mayor GOODMAN. Yes, Mr. Chairman.

Mr. HELLER. Also, more than 4,000 homeowners owe their lenders more than the current value of their property, is that an accurate assessment?

Mayor GOODMAN. Those are accurate statistics.

Mr. HELLER. Because I am also aware that in Washoe County, foreclosures increased exponentially last year; 14 percent of the area's active homes for sale in December 2007 were bank-owned homes. So the problem is not just in southern Nevada, obviously it is Statewide?

Mayor GOODMAN. It is a Statewide problem, however because the bulk of the population is in the South and Clark County and Las Vegas, the problem is that much more exacerbated.

Mr. HELLER. Mayor, let me tell you what I think is part of the problem, and I do not think that we could have reduced to zero the problems that we have in Nevada, but what I am concerned about—and as I mentioned earlier, I think there is a government role in this as far as oversight is concerned. My concern is about 10 years ago, I worked with David Goldwater on a piece of legislation that would have put the mortgage industry under the Securities Act. If we would have done that 10 years ago, and I am not asking you to respond to this because it is probably a pretty broad question, but feel free to respond if you want to, that is fine, but I do believe that our mortgage industry was very tight-lipped, there was not enough sunshine in the process.

If you would have put the mortgage industry under the Securities Act, like most States, if not all States, except for the State of Nevada, what you have the ability to do is for a division in that office, the Securities Division, going once every 3 years to go audit the books to find out what kind of lending is in fact actually happening. And that was not happening in Southern Nevada nor anywhere else in the State of Nevada, that there was an agency that overlooked and was able to come in unannounced, audit these books, and determine what kind of lending practices were going on and whether or not the actual borrowers had all the information that they needed to make a decision. Are you aware of any pattern of this?

Mayor GOODMAN. Mr. Chairman, I do not believe that there is any oversight into those practices. As much as takes place in a fast growing State like Nevada, and particularly a fast growing area of Las Vegas, one of our biggest problems is to regulate the activity that takes place in our community. We just went through, as you know, a horrible experience with an endoscopy clinic, and we were criticized as not having appropriate supervision and oversight into that, and that happens in a lot of areas in our State. Would it have been caught? Perhaps had we had those kind of reporting requirements as you would under securities but there is no guarantee even under that set of circumstances or that scenario—

Mr. HELLER. Right.

Mayor GOODMAN. —that it would have been picked up.

Mr. HELLER. Yes, I do not think we could have zeroed it out but I will tell you that these—

Mayor GOODMAN. No, with all due respect, I do not think anybody saw it coming. That is the problem. If we saw it coming, then I could fault us, but it sort of happened overnight. I was sitting in a casino with one of the casino owners, who was talking about borrowing $250 million for an improvement to that casino, and he had been advised that day what had happened as far as the subprime was concerned and without blinking an eye, he said, "That is the end of that project." That is how quickly it happened. And, unfortunately, something we have not talked about today, and I think the record should at least reflect some of this, this certainly is not a quick fix no matter what is happening here. The effects are going to linger for a substantial period of time.

One of the areas that concerns me greatly is that somebody might receive assistance under this bill who has already had an adverse report concerning their credit, which will stay with them for an indefinite period of time because of their inability to have met the payments on their mortgages to this date. And that seems to me to be a penalty that is unwarranted, particularly for the owner-occupied people who are involved.

Mr. HELLER. Yes, well, I will tell you, Mayor, I was concerned 10 years ago.

The CHAIRMAN. We will have to finish up this comment. We are over time too. Finish the comment, if you wish.

Mr. HELLER. Okay, but I was concerned 10 years ago about the lending practices in the State of Nevada, and I think at the time I called it the "ultimate Ponzi scheme" that we were seeing in the State of Nevada. So I will yield back and ask questions later.

The CHAIRMAN. Thank you. We will have another panel. Mayor Goodman, I know you have to leave, so you leave when you have to. And, Mayor Menino, if any of our three officials, can you stay any longer any of you, or do you all have to leave?

Mayor GOODMAN. Unfortunately, Mr. Chairman, I have to catch a plane.

The CHAIRMAN. Well, go ahead.

Mayor GOODMAN. I am going to have to leave. I want to thank you very much for giving us the privilege of appearing here.

The CHAIRMAN. You are welcome. Mayor Menino?

Mayor MENINO. Mr. Chairman, I have to catch a plane also back to the city.

The CHAIRMAN. Governor?

Governor O'MALLEY. I have to catch a rocket back to Annapolis, Mr. Chairman.

[Laughter]

The CHAIRMAN. We will have a second panel. Let me say to my colleagues, I regret that we were held up by the swearing-in, so I am going to excuse this panel and the next panel will come in. We will begin the questioning of the next panel where we left off on this one, so my colleagues who have just come in will be the first to question. The panel is excused.

As the next panel comes forward, I would ask unanimous consent to put into the record a letter dated April 9th from William Gross, who is the co-chief investment officer and Muhammad Arian, who is the co-chief investment officer from PIMCO, in support of the concept that we talked about yesterday. So without objection, that will be made a part of the record. It is a letter to Senator Dodd, which we will put in the record on this issue.

And for our next panel, our representatives of business and advocacy and public agencies that deal directly with the housing crisis, we will begin with Mr. Doug Garver, who is executive director of the Ohio Housing Finance Agency.

Mr. Garver?

STATEMENT OF DOUG GARVER, EXECUTIVE DIRECTOR, OHIO HOUSING FINANCE AGENCY, ON BEHALF OF THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES (NCSHA)

Mr. GARVER. Chairman Frank, Ranking Member Bachus, and members of the committee, thank you for the opportunity to testify on behalf of the National Council of State Housing Agencies in support of your Economic, Mortgage and Housing Rescue bill. NCSHA is grateful to you, Mr. Chairman, for this important legislation and for all you are doing to soften the impact of today's housing crisis on working families, communities, the housing market, and the economy. This legislation will help keep families in their homes and put foreclosed properties back into productive use.

NCSHA represents the housing finance agencies of the 50 States, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. State HFAs issue tax-exempt housing bonds and allocate the Low-Income Housing Tax Credit to finance affordable homes in every State. More than a dozen HFAs have established mortgage refinancing programs to help homeowners at serious risk of foreclosure hold onto their homes. I testified before this committee last year on Ohio's Opportunity Loan Refinance Program.

OHFA and other HFAs have experienced disappointingly little volume under these programs. Many troubled homeowners simply cannot refinance their mortgages because they are too far behind on their current mortgage payments, have weak credit, or have outstanding mortgage obligations that exceed the value of their homes. I can tell you from our experience in Ohio that unfortunately, many people confront a combination of these challenges. Your legislation's FHA Homeownership Retention Mortgage Program would help lower some of these hurdles.

NCHA suggests the committee consider the following modification to the legislation's FHA Refinancing Program to encourage lender participation and potentially help a broader spectrum of homeowners. We recommend you permit higher loan to value ratio mortgages to encourage more lenders to participate by offering them greater loan payoffs. We also suggest you expand the number of eligible mortgages by including loans originated before 2005. Lenders in many States, including Ohio, began originating subprime mortgages in significant numbers as early as 2001.

Before troubled homeowners can be helped, they must be reached and educated about their options. State HFAs are doing their part to assist homeowners facing mortgage payment difficulties by conducting Statewide outreach campaigns and providing foreclosure mitigation counseling. For example, NeighborWorks, through last year's congressional appropriation, awarded $39 million to 32 HFAs, including OHFA. NCHA strongly supports the $200 million in loss mitigation counseling funds this bill authorizes for both this year and next and urges its quick appropriation.

Sadly, despite the best efforts of State HFAs and others to help troubled homeowners keep their homes, many will still lose theirs. Foreclosure rates are up significantly and are still rising in many parts of the country. State HFAs, partnering with local communities and nonprofit groups, are working aggressively to turn this foreclosed property crisis into an opportunity for low- and moderate-income working families. In Ohio, our board's multi-family committee just yesterday gave us the green light to move forward with a pilot program making up to $4.5 million available in agency funds and State housing trust fund monies to six neighborhoods in Cleveland, the epicenter of the foreclosure crisis, as you have noted, Mr. Frank, and the Nation.

This is yet another example of State, city, and local nonprofit organizations working together to build a stronger Ohio. However, our funds and those of other HFAs are inadequate to deal with the huge scope of the foreclosure problem. Your legislation's proposed State Loan and Grant Program would significantly strengthen and expand State HFA initiatives in this key area. Based on our experience with similar programs, State HFAs believe it is important for Congress to understand, however, that the full repayment of these loans in the short term, and even possibly over the long run, may not always be possible. Continued home price depreciation and high rehabilitation costs will likely make it difficult in some cases to re-sell properties for what States and their local partners may need to pay for them. We are seeing that firsthand in the initiative we are looking at in Cleveland.

We are concerned the bill's purchase price limit will constrain the program from serving people who really need help and stabilizing economically integrated neighborhoods. We suggest you increase this limit to at least conform with the Mortgage Revenue Bond Program.

Finally, we understand the bill requires 6 months of payments before insurance endorsement for new loans with total debt to income ratios greater than 40 percent. Delaying endorsement for new mortgages will make it much more difficult for HFAs to include them and their bond-financed mortgage programs, we recommend you permit flexible underwriting standards without the 6-month delay.

Mr. Chairman, thank you again for the opportunity to testify in support of this important legislation.

[The prepared statement of Mr. Garver can be found on page 76 of the appendix.]

The CHAIRMAN. Thank you. Next, we have Mr. David Lizarraga, who is chairman of the United States Hispanic Chamber of Commerce. The gentlewoman from California would like to introduce Mr. Lizarraga.

Ms. WATERS. Thank you for an opportunity to introduce Mr. David Lizarraga. He is founder of the one of the biggest CDCs in the country, TELACU. He now services at the Hispanic Chamber of Commerce. He has long been involved in providing housing opportunities for low- and moderate-income people, and I would like to welcome him, and I thank him for coming.

STATEMENT OF DAVID C. LIZARRAGA, CHAIRMAN, UNITED STATES HISPANIC CHAMBER OF COMMERCE (USHCC)

Mr. LIZARRAGA. Thank you very much. Chairman Frank, Ranking Member Bachus, Congresswoman Maxine Waters, and members of the committee, good afternoon. My name is David Lizarraga, and I am the chairman of the United States Hispanic Chamber of Commerce. The USHCC represents the interests of 2.5 million Hispanic entrepreneurs in this country today. We are honored to be invited to share our views on the housing market with the committee, and in particular its impact on the economy and what can be done to cushion the negative impact of this economic downturn.

As a business organization, the USHCC believes in a free market, but the magnitude of this situation is so great and the impact so severe that we believe that the market cannot correct itself without seriously jeopardizing our economy.

In representing both entrepreneurs and the Hispanic community, we see a convergence of interest: Underserved communities and small businesses are some of the biggest losers in the current market crisis. The fact is that the home is often the first substantive asset held by members of underserved communities such as ours. Therefore, foreclosures and losses in home value constitute a loss and perhaps the only substantial asset contributing to the net worth of most members of our Hispanic community. This results in a lack of equity to pay our retirement or our children's college education. Also, the results of lack of collateral for business loans, even SBA loans, and a general decline in the financial stability and security of our community are really, really impacting us.

In this regard, we are also very concerned that this crisis is deeply affecting small and minority business owners who use their home equity to secure loans to help finance the establishment or expansion of their businesses. Unlike many corporations that are outsourcing jobs to foreign countries, our small businesses are the largest employers and job creators in the United States today.

Many of these small and minority business owners are now in jeopardy as a result of rapidly cascading home values. In light of this situation, and in order to further improve the relief of this legislation, we believe it is critical for the committee to take into full consideration the needs of these borrowers who have subordinated debt secured by their homes.

Earlier this year, the United States Hispanic Chamber of Commerce called for further economic stimulus and investment in order to reverse the downward course of our economy and bring us back to economic growth and stability. While as a national business membership organization, we are inclined to push for less regulation in the economy, we recognize that our Nation is facing extraordinary circumstances that require extraordinary measures. This is why we now support Federal legislation, such as the chairman's draft FHA Housing Stabilization and Homeownership Retention Act, in order to bring stability to our economy. In addition to the other provisions in the bill, we support the chairman's proposal to provide $10 billion in loans and grants for the purchase and rehabilitation of vacant foreclosed homes.

With regard to the 25 percent State relief and mitigation grants program, we fully support your proposed initiative as critically needed. Additionally, adding a sentence to foster private sector leverage of these proposed funds for the purchase of foreclosed and vacant properties will result in long-term benefits for our underserved communities across the Nation.

While testifying today as chairman of our membership organization, I also preside over one of America's oldest, largest, and most successful community development corporations, TELACU. In many of our activities, we have worked together with lenders, insurance companies, local small- and minority-owned businesses, government agencies at all levels, and many others to advance private/public partnerships that have dramatically altered the economic dynamics in many low- and moderate-income communities. These partnerships have helped to revitalize urban neighborhoods and rural areas by creating vibrant hubs of economic activity and thousands upon thousands of jobs, homes and small- and minority-owned enterprises. My written testimony attempts to address how such partnerships can be useful in the current crisis and its aftermath.

We welcome the opportunity to work with you, Mr. Chairman, and the committee to help ensure that States receiving grant and loan assistance under this proposed program will have incentives to foster these same types of private/public partnerships, resulting in a $10 billion program being leveraged to serve a need that is actually many tens of billions of dollars.

In conclusion, the United States Hispanic Chamber of Commerce lends its support to the chairman's proposal as a means to bring stability to our shaken housing and credit markets, and we also appreciate your consideration of our recommendations as you further deliberate on this legislation. Thank you again for inviting our organization here today.

[The prepared statement of Mr. Lizarraga can be found on page 86 of the appendix.]

The CHAIRMAN. Thank you, Mr. Lizarraga. Let me make it explicit that what we had the hearing on yesterday and today, the two parts of this, is explicitly and deliberately labeled a discussion draft. We will probably be introducing something next week that we will be marking-up 2 weeks from now, and all the witnesses are people whose opinions we value, and so this is very much something where we will be taking these recommendations into account.

Our next witness is a familiar and welcome witness before the committee in the very important issue of housing for people with low income, Sheila Crowley, who is president of the National Low Income Housing Coalition.

STATEMENT OF SHEILA CROWLEY, MSW, PH.D., PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION

Ms. CROWLEY. Thank you, Mr. Chairman. Chairman Frank, Ranking Member Capito, and Chairwoman Waters, thank you very much for the opportunity to testify today. The major concerns of the National Low Income Housing Coalition in this foreclosure crisis are with the fate of low-income families and with the fate of renters. The lower a household's income, of course, the less able it is to cope in the face of foreclosure. And renters who have the misfortune of having landlords who lose their property to foreclosure are the completely blameless victims in this catastrophe.

Unfortunately, the data on income of families affected by foreclosure are not collected in any public form that makes examination easy, but we do have some indicators, which I have detailed in my written testimony. These data support the numerous news reports that renters are a significant portion of families who are losing their homes due to foreclosure. We are using the working estimate at this point of 40 percent of the people who are evicted are renters.

The data also support reports from local service providers that very-low- and extremely-low-income families are a significant portion of those who are losing their homes. A working estimate for very-low-income, is 50 percent of the families are in that category and for extremely-low-income, it is 20 percent.

The first policy implication of this information is the need to provide better protection for renters. There is considerable variation from State to State on the rights of renters when the owners of their homes lose their properties to foreclosure. Some States have enacted tenant protection laws that give tenants a reasonable time to relocate, others have not. I received a report just this week from two families in Alaska who became homeless after losing the homes they had rented due to foreclosure with just 7 days notice. Although renter protection language was included in H.R. 3915, which has already passed the House, this provision would only be applicable if the mortgage on the rented property was entered into after enactment. Current tenants should be protected as well, and we urge you to take up this issue.

Another top public policy objective should be to prevent homelessness due to foreclosure. Lower-income families faced with eviction lack the resources to transition to new living arrangements. They may not have the immediate funds to pay for moving expenses or security deposits. Homelessness is highly traumatic for families who experience it and it is much more costly than the modest amount of assistance needed to prevent it. We recommend a one-time supplemental appropriation of $300 million to the Emergency Food and Shelter Program to provide direct financial assistance to be used solely for housing-related assistance needed to prevent homelessness in connection with foreclosure. Our proposal would provide $3,000 in assistance for 100,000 families. It would seem to be the least we could do—$30 billion for Bear Stearns, $3,000 for a low-income family.

In regard to Title 3 of the proposed legislation, we have previously submitted to Chairman Frank several recommendations to strengthen this provision. Giving States and cities the ability to buy foreclosed homes and put them back into service makes good sense. However, the program should be designed to address the most pervasive and longstanding housing problem of every community, the well-documented shortage of affordable rental housing. Thanks to Mr. Watt for pointing that out in his opening statement.

Nationwide, there are just 38 rental homes that are available and affordable for every 100 extremely-low-income families. As Ms. Waters noted, the competition for affordable rental homes is intensifying as families who have lost their homes to foreclosure flood the rental housing market. We need to expand the supply of affordable rental housing so that the people at the bottom of the wage and income ladder will not be squeezed out of the housing market altogether. Therefore, we recommend that at least 25 percent of the proposed $15 billion in grants and loans be for the benefit of very-low- and extremely-low-income households. We are delighted with Ms. Waters' announcement earlier that agreement had been reached. We also urge that the use of these grants and loans minimally not result in a net loss of rental housing units in any jurisdiction that receives this assistance.

Let me close with a plea for balance. There is plenty of blame to go around for the U.S. mortgage foreclosure crisis, including those who have uncritically proclaimed homeownership as the idealized form of housing tenure in the United States. The rhetoric on homeownership in a political era that favored an unregulated market created a fertile environment for risky and unscrupulous lending practices to flourish. A social environment saturated with messages that have propelled low-income people to seek homeownership at all costs has also delivered the corollary message that rental housing is inferior.

The interventions that you devise for this immediate crisis should not be for the purpose of just restoring the status quo. The U.S. housing market is in desperate need of re-balancing. Purchase prices need to make financial sense. Cost and incomes need to be more in sync. Homes need to be reasonably sized and better for the environment. Communities need to make sure that housing stock, including rental housing, matches the needs of the people who live there. Tax policy needs to reward moderation, not excess. And housing needs to be understood more as the place where one is sheltered and carries out family life and less as a financial asset.

I urge you to use this galvanizing moment that has the potential of producing significant policy changes to lead the way to more balanced housing policy and a more balanced housing market.

Thank you very much for your consideration of my remarks.

[The prepared statement of Ms. Crowley can be found on page 65 of the appendix.]

The CHAIRMAN. Next, another welcome, frequent witness before this committee on important issues, Hilary Shelton, who is the director of the Washington Bureau of the NAACP.

STATEMENT OF HILARY O. SHELTON, DIRECTOR, NAACP WASHINGTON BUREAU

Mr. SHELTON. Thank you, Mr. Chairman. Good afternoon. As you mentioned, my name is Hilary Shelton, and I am director of the NAACP's Washington Bureau.

I am here today to express our strong support for the draft legislation spearheaded by Chairman Frank, which would enable the Federal Government to help troubled homeowners save their homes. This proposal is especially important to the NAACP since a disproportionate number of subprime loans, which are at the heart of the massive wave of foreclosures that our Nation is currently facing, were made to African Americans and other racial and ethnic minorities.

The NAACP firmly believes there is so much the Federal Government can do and should do to address the current foreclosure crisis. First, we fell it is incumbent upon the Federal Government to help families facing foreclosure to be able to stay in their homes, which I believe is the intent of this legislation. Homeownership makes the neighborhoods safer and encourages community investment, provides financial security, and improves the lives of families by helping to provide a safe, secure, and stable home environment. By enabling the Federal Government to ensure and guarantee refinanced, sustainable, and affordable mortgages, Congress and the Administration will be assuring homeowners, as well as the American public, that families are as important to lawmakers as large corporations and financial institutions.

In addition to helping consumers, the NAACP also considers the proposal before us a win for lenders. Although they must, under Chairman Frank's plan, take a diminished return on the properties, they are no longer responsible for the foreclosed properties and are assured of getting some return on their investment.

Finally, such an action, as proposed by Chairman Frank, would also help the national economy, which is currently suffering tremendously because of the foreclosure crisis.

A second step which the NAACP believes is imperative for the Congress to take is to pass substantive legislation to put an end once and for all to predatory lending. For decades, predatory lenders have targeted African Americans and other racial and ethnic minorities and the elderly through steering and other immoral practices with dubious products that contain prepayment penalties, the so-called exploding ARMs, and the list goes on and on. In fact, according to the Center for Responsible Lending, more than 52 percent of homes purchase loans made to African Americans in 2006 were subprime.

Let's consider the facts for a moment. Among subprime loans made in 2005 and sold to investors, 55 percent went to people with credit scores high enough to often qualify for conventional loans with far better terms. By the end of 2006, the share of overpriced loans rose to 61 percent. As a conservative estimate, one in 10 African-American homeowners who received subprime loans in recent years will lose their homes to foreclosure. The subprime market has not increased homeownership for the communities of color. In fact, subprime loans made between 1998 and 2006 produced a net loss of homeownership. In 2004, African-American homeownership peaked nationally at 49.1 percent but by the end of 2006, it dropped 1.2 percentage points to 47.9 percent. The subprime mortgage crisis will drain $213 billion in African-American wealth, the greatest loss of wealth in modern in U.S. history.

A report issued last year by the Center for Responsible Lending estimated that one out of every five mortgages that originated during the last 2 years will end in foreclosure. This means that the effects of years of predatory lenders targeting African Americans and other racial and ethnic minorities will now begin to hurt not only the borrowers but also their neighbors and their communities as homes are foreclosed upon in record numbers and those numbers will be concentrated in African-American communities and other communities with high concentrations of racial and ethnic minorities.

Foreclosures ruin lives, families, and communities and cause economic devastation throughout. For many, homeownership means the difference between spending their golden years in either poverty or comfort, yet a predatory mortgage or refinancing can ruin all these dreams and more. And for the communities, the foreclosures that will result because of targeted predatory lending can mean devastation. One study estimated that for every home that is foreclosed on in a given block, the other homeowners on that block lose 1.14 percent of their property's value.

So I will close by thanking the chairman and the committee for your efforts and to reiterate our support for the legislation before us. On behalf of the NAACP, we look forward to working with you on this proposal and others that will effectively address the foreclosure crisis facing our Nation. Like you, we want to help America's families stay in their homes.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Shelton can be found on page 101 of the appendix.]

The CHAIRMAN. And finally, Mr. Victor Burrola, who is the director of the Homeownership Network of the National Council of La Raza.

STATEMENT OF VICTOR BURROLA, DIRECTOR, HOMEOWNERSHIP NETWORK, NATIONAL COUNCIL OF LA RAZA

Mr. BURROLA. Good afternoon. My name is Victor Burrola, and I am director of the NCLR Homeownership Network. In this role, I oversee our daily activities with 50 housing counseling groups across the country. I would like to thank Chairman Frank and Ranking Member Capito for inviting me to participate in this panel.

Every day, I hear from our counselors about their battle to save the homes of families. Unfortunately, despite their skill and best efforts, there are many families they cannot help. We commend you on this legislation. For many victims, the programs laid out in the bill may be their only hope.

Today, I would like to share with you five challenges community groups are dealing with. I will also share with you our thoughts on the proposed legislation, and I will end with recommendations.

Before I start with the challenges, I would like to share with you a recent story from our group in Georgia. They had a family that recently had their hours cut at the local factory. This should have qualified them for a hardship loan modification, one of the easiest and least controversial kinds of modifications. The counselors of Don Whitfield submitted all the paperwork to the servicer, but the company never responded to their request or returned their phone calls. When the family was days away from losing their home, the servicer finally contacted the agency. Unfortunately, their news was not so helpful. They told the family that they did qualify for a loan modification, however, because of the late hour, the family had to come up with an additional $2,000 in legal fees. The couple had already scraped together all of their savings to pay 2 months of back payments as required by their modification. Due to the servicer delays, the plan became unaffordable. The family lost their home through a foreclosure option.

The story of this Etta family is familiar, and it is what we are seeing across the country. Many of our families could afford to pay a mortgage if it was affordable. Industry players point to data stating many families in foreclosure never reached out to their servicer. It is our experience that most servicers cannot respond to the calls quickly enough to avoid foreclosure, even when a family is working with a housing counselor.

I could tell you multiple stories of this kind of malpractice, instead I will turn to the barriers community groups face when serving foreclosure victims.

First, voluntary loan modification programs are not working. Many servicers are relying on short-term payment plans. This is just a Band-Aid. The mortgage will be just as unaffordable when the extension expires.

Second, we need more capacity and support. Not only is the demand for our services increasing but so is the demand for related services like homeless shelters and legal aid.

Third, foreclosure rescue scams are competing with legitimate housing counseling agencies. Troubled homeowners are easy targets for these scam markets. They charge high fees and make unrealistic promises to save the home from foreclosure.

Fourth, our neighborhoods are in decline. Communities are struggling to keep up with the growing number of vacant homes. Many cities not only lack the funding to maintain the properties, they also do not have the technical expertise to address the problem.

And, finally, we are seeing homeownership opportunities dry up. We are seriously concerned about the impact the credit crunch will have on low-income borrowers.

In general, we are supportive of the concepts included in the bill. In our written statement, we comment on key areas of the bill that must be preserved moving forward.

In the interest of time, I would like to turn to three areas where we believe the bill comes up short. First, the lack of capacity to the pay standard will not work. In particular, the cut-off date of March 1, 2008, would leave a significant segment of our community out of the program.

Second, some of the timelines are too tight, for example, the 2-year sunset in Title III. Certain mortgages are not expected to peak until the next 2 years, so the need for neighborhood stabilization activities will continue for several years past the sunset.

Third, the bill does not recognize the critical role of neighborhood organizations. Community groups specialize in local development and preparing families for homeownership. We know that when the right tools and partnerships are in place, foreclosures can be stopped.

We look forward to working with the committee and others on these issues.

Allow me to close by making four recommendations: Extend the eligibility cutoff date; allow for more flexible timelines; create a set aside for local nonprofits; and investigate foreclosure rescue scams.

Thank you for your time and this opportunity, and I would be happy to answer any questions you may have.

[The prepared statement of Mr. Burrola can be found on page 57 of the appendix.]

The CHAIRMAN. I thank the panel. Let me reiterate that this is really open, these are the kinds of suggestions we are looking for. I would like to say that the last of those is not legislative obviously, looking into the scams. The committee has limited investigative resources, but we will be urging others to be doing that. But the substantive suggestions are very much what we are looking for, and the gentleman from California has already anticipated some of these and other members have, the gentleman from North Carolina, so I think you will see that some of these will be adopted.

Mr. BURROLA. Thank you.

The CHAIRMAN. As I announced, I am going to begin where we left off, because we were not able to get everybody in the first panel, so the first questions will come from the gentleman from Georgia.

Mr. SCOTT. Thank you, Mr. Chairman. Let me start out by first of all congratulating you, Mr. Chairman. Our Chairman Frank has done an extraordinary job in crafting and coming up with a very, very good piece of legislation that hits at the critical and crucial need of providing relief for the homeowners and families.

We recognize fully in this committee that too many homeowners, too many American people, millions literally, are just hanging on by their fingernails. This, as I said yesterday, is the most critical economic crisis since the Depression, and we must not let this generation of Americans down just as Franklin Delano Roosevelt and those Members of Congress rose to the occasion to save America. Had it not been for that kind of very incisive, well-timed, critical public policy of the government getting involved and coming and doing what the government is in place to do, and that is to fix a very terrible situation. And so I commend you, Mr. Chairman, for what you have put forward here, and I want to see, as the chairman just mentioned, how we can even strengthen this bill moving forward.

You know from the arguments from the other side of the aisle that this is not going to be an easy challenge. There are philosophical differences just as there were during the Depression, but the American people are the final arbiters on this, and they are demanding action. And, as I said before, yesterday, if we move with the kind of speed and just total full speed ahead, and in a matter of hours, we made the decision to bail out Wall Street. And we did that, in my estimation, properly. And that was a role that government had to play because I believe world markets would have collapsed from that. And with that same eagerness, with that same energy, with that same urgency, we must move to help these homeowners and families.

So with that, I just wanted to make that comment, Mr. Chairman, because I think you have a good bill here, we are moving forward with it, and we are open to how it can be improved.

Now, I would like to just ask a few questions. I am concerned that we may not be moving fast enough and that this bill might need to have some features added to it. I am very concerned about any families and homeowners who might fall through the cracks. I think we might want to address that because so many of these investors that have bought up these mortgages are very hesitant to refinance and restructure, and I would like to see if there is something in this bill that we can do that can make sure that they do not fall through the cracks. I think that there might be also the idea, if it gets down to the bankruptcy level, that we may assure a bankruptcy judge can have that authorization to demand that these mortgages be refinanced and restructured, lowering the principal as well as the interest and taking into consideration what the chairman has been saying a long time ago, that we should understand the lowering the property values and the value of that home is less than it was when they purchased the mortgage so that we have to take that into consideration as well and perhaps have that bankruptcy judge be able to make that determination.

I wanted to just ask, if I may, my time I know is wrapping up, and I thought you made some very good points, all of you good points, Mr. Shelton and Mr. Burrola. What would you suggest that we do to address your three concerns—I think your three concerns were the March cutoff date, for example, what date do you think would be sufficient for that? The sunset provision, which I think you are right because some of these things are going to come through in the next 2 or 3 years, how would you apply—how would we write in the bill to increase the neighborhood involvement that you are talking about?

Thank you for your patience, Mr. Chairman.

Mr. BURROLA. We had an internal discussion, and we were proposing that 5 years would be an adequate time to capture the people that we think are going to reset within that 2-year period. And that data is from the Credit Suisse. It was a presentation that was given to us, and so I would be happy to show that to you so you can see that. So the 5-year period, I think, would be an amount of time to get a good handle on what is going on in the reset period.

We also discussed a set-aside for the nonprofits. What we are concerned about is that when the money is released, that businesses that are used to doing REOs or large corporations and whatnot may take a lot of the funds, and so we just want to make sure that the nonprofits who are dealing with the families on a day-to-day basis who understand and are impacted because they are in the community are able to tap into those funds to help out.

The CHAIRMAN. Thank you. I think we did intend to have a nonprofit requirement in there. We will have to maybe improve its specificity. The gentleman from Ohio?

Mr. WILSON. Thank you, Mr. Chairman.

The CHAIRMAN. I am sorry, the gentlewoman from Ohio. We have to go in order.

Mr. WILSON. I am sorry. I just heard "Ohio."

Ms. PRYCE. Well, thank you, Mr. Chairman, and I thank the gentleman from Ohio. I am sure that many of our concerns are the same. And I want to thank the panel for your very thoughtful testimony today. We all agree that much has to be done. I think there will not be agreement on everything, but one thing I would like to address right now is one thing we do not want to do is make this situation worse. And we as a Federal Government oftentimes propose a one-size-fits-all solution, and my State of Ohio and Mr. Wilson's State of Ohio and Mr. Garver's State of Ohio perhaps have different challenges than the State of California or the State of Florida, just to name a few others. So I would like any of you, and especially Mr. Garver if you could, to help us understand how the formula might work. The Midwest has more moderate median home prices. And our committee or the chairman's mark proposes to use the $10 billion for loans and grants to the States and it is based on a formula that looks at the State's percentage of nationwide foreclosure and it is adjusted for the median home price. Now, the Senate has a different approach, it takes into consideration a number of different things, the number and percentage of home foreclosures, the number and percentage of homes financed by subprime mortgages, and the number and percentage of homes in default or delinquency in each State. I do not know, is this more advantageous to the overall picture? I am looking at Rust Belt States where I am from, and Mr. Garver or any of you who would like to comment on that, do you think the formula should be more specific?

Mr. GARVER. I will take the first shot at that if I could, Congresswoman Pryce. I think it is a good observation on your part, we have been living and breathing in Ohio this foreclosure crisis issue for years now. And we have our champions, Jim Rokakis, treasurer of Cuyahoga County, and many of his cohorts have been dealing with this for years. And you travel around our great State and you see firsthand the fallout from this whole situation. While most certainly we do not want look a gift horse in the mouth and would appreciate any resources that might come to help us work with this. As I said in my testimony, we look at it as a partnership.

The Federal Government, the State government, the local communities, and I know speaking for OHFA and for my colleagues at other State HFAs, we drive that partnership all the time. We look for that. We know we cannot be the be-all, end-all, but the reality is when you look at a State like Ohio, which has been dealing with this problem for a long time, you need a bigger snapshot. You need to look at things like the number of subprime loans, at foreclosure statistics, at default and delinquency statistics to really get a better understanding of what is going on on a State-by-State basis, and our argument would be obviously that Ohio was hit early and hit hard and that this legislation and the assistance that it might provide should focus on those States that have really been hit hardest and try and direct as much resources so that we can work with our counterparts at a local level to really start to address this problem and start to bring some sense of stability to neighborhoods, communities, and obviously to help homeowners.

Ms. PRYCE. Anybody else on the panel want to comment or disagree with Mr. Garver?

Ms. CROWLEY. Well, I would like to agree. One of the recommendations we have had is to look at a longer period of time in terms of the data precisely because States like Ohio have been grappling with this for some period of time and so that would reflect that reality if we looked back in time further than is currently recommended.

We also think it is important to make sure in looking at the housing stock, that you look at the totality of the housing stock, so not just not the median price of single family homes but also multifamily properties. And one of the things that is a variable that we are really trying to get a good handle on to show the depth of the problem is to look at the difference between the numbers of properties in foreclosure and the number of units of housing that are represented by that. What we are finding is that it is a substantially higher number when you look at total homes versus actual properties, and we think those should be included in the formula as well.

Ms. PRYCE. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Cleaver?

Mr. CLEAVER. Thank you. I have a couple of questions, the first, yesterday, I unfortunately sought to convey to one of our witnesses and some of my colleagues the feeling on the part of a lot of people, at least maybe I just live in a unique spot in the world, who believe that our government, the Federal Government, has a history of and continues to provide assistance most readily for those who need it. My colleague Mr. Scott's comment about the bailout of Bear Stearns and we did that quickly but there seems to be, at least to the little piece of geography that I represent, a tendency of the Federal Government to do that. I am wondering if in real worlds where you live there is a sentiment that we responded quickly to Bear Stearns, and we do a tortoise pace as it relates to the general public?

Mr. BURROLA. I would say so. And you have to understand the perspective. You know, like I said, I have calls with our counselors all the time, and so when a family is losing their home and they see in the paper what's going on with the financial sector and they have a problem just even in getting a response from a servicer at times for customer service, and you're in a tough situation like that, you know, of course, there's a lot of resentment there, so. I would say, yes, definitely, you know—

Mr. CLEAVER. Well, there is a perception—

Mr. BURROLA. Why is it—yes. Why is it for them, but why not for us?

Mr. SHELTON. And I think—

Mr. CLEAVER. Mr. Shelton?

Mr. SHELTON. I would simply add to that that the African American community, walking out of your door and seeing all the For

Sale signs of your neighbors and knowing that your property is depreciating at that rate, it's incredible to know that what you have invested in your home now is actually—the home is actually worth much less than you owe on that home, is outrageous.

But to take it a few steps further, to know that the bailouts that are available would allow a restructuring of loans of those who need to restructure the loan for their yacht and for their mortgage company, their financial institution, but the American family cannot enjoy the same kind of protections is absolutely outrageous. You can imagine how Americans feel that they're not really part of the equation, part of the real concern that's being debated not only on Capitol Hill but even in our newscasts and television stations across the country.

Mr. CLEAVER. Thank you.

Mr. LIZARRAGA. I would also like, if I may, I would also like to add that I agree with Mr. Shelton. One of the things that we see is the ability for government to respond very quickly in very unique areas, and we're talking about a national disaster here. This needs to be treated as a national disaster, because all the gains that have been made over the last 15 or 20 years to get people to build equity, to buy their first home, to get that first ladder of equity building, have been wiped away in just a short period of time.

And the response that I see from the Administration to this issue, very, very quickly, is a response that we need for this issue right now. In order to recapture, I guess, the intensity of it, we have already lost 1.5 million—have 1.5 million foreclosures not even going to be touched by this legislation. There's another 1.5 million coming in the next 60 to 90 days, you know, that we're going to be facing as well; 3 million foreclosures in the United States is just a huge, huge, huge problem. So it is something that our community sees as just a different approach to solving—yes, the Bear Stearns issue is an important issue as far as stability of our banking community, but our communities, our underserved communities and communities throughout the United States are being impacted very negatively by this issue.

Mr. CLEAVER. One of our witnesses yesterday said when I raised this issue that—I mentioned that I have a town hall meeting on Saturday morning, and I asked for some comfort from him, what could I tell the people, and he said to tell them that they need to think more deeply about why the government should respond to those who run the economy first. That was a gratuitous comment. I apologize.

My final question is, what do we need—what can we do? When I look at the statistics that you presented, Mr. Shelton, and the same with you, Ms. Crowley, we have people who are losing homes, and the problem is going to be that they may never qualify again for a home. So, I mean, is there something that you think we can do to be of assistance to people who may have lost their life savings and then will never, ever achieve the American Dream again?

Mr. SHELTON. Certainly, options need to take into consideration the conditions the American families were in going into the loans, as well as the conditions they're in now, that very well providing an opportunity for them to even seek to purchase those homes in a restructured manner, that they have just lost. Indeed, the discussions we're having even today won't help those who have actually lost their homes at this point, who are finding themselves destitute. So reconsideration and then reorganizing of the process in which we assess how American families can actually receive the capital, the protection, and the sustainability to be able to own those homes throughout.

And again, going back to the question you asked before, Congressman Cleaver, we felt like when Bear Stearns had a problem, the government was willing to write a check. But when the American family had a problem, we got counseling.

The CHAIRMAN. The gentlewoman from West Virginia.

Mrs. CAPITO. Thank you. I would like to ask the panel a question. We have appropriated previously in the economic stimulus package money for counseling assistance. I know NeighborWorks is a big player in this. Can you tell me—but I have heard that the money is not quite getting down to the actual assistance and counseling folks in a speedy enough way. Can you tell me the status of this from your perspective? And, you know, this bill advocates more money for counseling. Are we spending what we have? Is it being used in the best possible way that we can?

Mr. GARVER. Ranking Member Capito, if I could, I'll speak to it, at least from Ohio's perspective. We received a $3.1 million allocation in the National Foreclosure Mitigation funding, and within 2 weeks had funding agreements out to 18 counseling agencies.

Mrs. CAPITO. Could I interrupt you for just a second?

Mr. GARVER. Sure.

Mrs. CAPITO. Excuse me. So the money comes from the Federal Government to NeighborWorks to you to another entity?

Mr. GARVER. Yes.

Mrs. CAPITO. So it passes through twice?

Mr. GARVER. And the key to that is that we actually applied on behalf of 18 nonprofits who didn't have the capacity to access those dollars. So we felt it was critical to develop a Statewide network of counseling.

The CHAIRMAN. Hold up. You applied to whom?

Mr. GARVER. We applied to NeighborWorks.

Mrs. CAPITO. So we send the money to NeighborWorks?

The CHAIRMAN. So the Federal Government sends it to NeighborWorks and then the State of Ohio asks to apply to NeighborWorks?

Mr. GARVER. Yes. They had a two-pronged process. Some entities got funding directly that had prior capacity and a track record, and others that didn't, in a State as diverse as Ohio and as large as Ohio with 11.5 million population, there were gaps in that servicing network.

The CHAIRMAN. But I think if the gentlewoman would permit me, what strikes us is that it goes from the Federal Government to a private entity and then the State goes to the private entity. That's the chain that—

Mrs. CAPITO. Well, what I want to know is, by the time—you know, it starts at the Federal Government. By the time it goes to the private entity, 10 percent maybe out that way, then it goes through Ohio, 10 percent out that way, you have already lost 20 percent of the buying power, you know, if that is in fact the way it goes. Could you help me out with that?

Mr. GARVER. No. We passed—on a pass-through basis. First, I will point out that most of the funding did flow directly from HUD. But what we—

Mrs. CAPITO. From HUD to—

Mr. GARVER. Through NeighborWorks directly to local organizations, but there were also entities that did not have the prior capacity, and we stepped in and said we will help to build that network.

Mrs. CAPITO. So right now, are those—I'm sorry to interrupt, but I am short on time—right now, are those entities, the 18 entities that you advocated for, are they—do they have the money and are now actually talking face-to-face with people?

Mr. GARVER. They are—yes. Yes, they are, literally. And I will mention one in particular, ESOP, which is a neighborhood-based organization in Cleveland, has agreements with I believe it's 11 servicers, to literally work out modifications on behalf of homeowners. And they will be receiving significant dollars through our participation.

The other thing I would point out is how important that counseling is, and I'll speak to it from an HFA perspective. We, obviously, in terms of our mission, work with low- and moderate-income first-time homebuyers. That is our passion, and that is our direction. A lot of folks would say there's risk in that, and there is. And yet when you look at the performance of our portfolio, the Ohio Housing Finance Agency has seen a tenfold increase in production in the last 4 years in its first-time homebuyer program, and that portfolio is performing at our better than prime loans for the State of Ohio. And the reason for that is proper underwriting standards and an informed buyer. And when you have that combination and put people in a product that is suitable to their economic circumstance, and teach them about the responsibilities of homeownership, we believe that those individuals will perform.

Mrs. CAPITO. And I believe in those goals as well. I'm questioning now the different hands. But Mr. Burrola I think wanted to add something.

Mr. BURROLA. Yes. Actually, I just wanted to clarify something. The funds came via Congress to NeighborWorks. It didn't pass through HUD whatsoever. And then there were three criteria that needed to be met. You either had to be a HUD housing counseling intermediary, a NeighborWorks direct organization, or a State housing finance authority. If you did not meet that criteria, you were not eligible for the funding.

Mrs. CAPITO. Can you tell me where NeighborWorks is located, and does it have offices across the country?

Mr. BURROLA. Right here in Washington, D.C.

Mrs. CAPITO. Thank you.

Mr. BURROLA. The other item, just real quick, just to give you some perspective on something that she had stated earlier, we were receiving—our housing counseling agencies were receiving 5 to 10 phone calls a day—or excuse me, a week, in the first quarter before the mortgage default started getting a lot of traction, and so we started—we are anticipating way more calls. And so we were understaffed, and there definitely is a need.

The CHAIRMAN. Let me just add briefly, because I want to move on, but I was in Arizona at the request of our colleague, Ed Pastor, and one of the things that hadn't occurred to me was, particularly when people were in trouble, that counseling is very labor-intensive. They estimated that if you can do this right for a family, it is 20 hours per individual.

Mrs. CAPITO. Yes.

The CHAIRMAN. And I think that is one of the things that we don't take fully into account, particularly if it's post-problem counseling.

Mrs. CAPITO. Yes.

The CHAIRMAN. You really need to put a lot of time into it. The gentlewoman from New York.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. And I want to take this opportunity to thank all the witnesses for your insights in providing information about this issue that is important not only for our Nation but particularly for my community and my district back in New York. I'm sorry I wasn't here to listen to the testimony, but I was chairing a full committee hearing.

I would like for any of the witnesses to comment on the following statement and question that I'll be making. Yesterday, we heard from regulators about a contraction in the availability of credit to mortgage borrowers. In addition, HUD raised concerns about using a loan and grant program to turn around foreclosed properties because it will represent, and I quote, "a clear moral hazard." Mr. Montgomery didn't refer to the bailout of Bear Stearns in the same way. So, first, do you agree with Mr. Montgomery's assertion? And second, how do you suggest we encourage vacant home sales to avoid neighborhood blight?

Mr. LIZARRAGA. One of the statements I would like to make, Congresswoman, is that the cooperation and participation of nonprofits is going to be significantly important in this process, we believe. Certainly we're going to have to work with the cities in this effort through their redevelopment capabilities and also their CBDG capabilities as well. But we're going to have to put together a capability with nonprofits and provide assistance, underwriting capability with the possibility of bringing together the ability to buy in bulk properties that can then be refinanced through this process so that we can use out-of-the-box concepts, concepts like maybe rent to buy. Keep people in their homes.

Because the minute somebody leaves their home, as we heard a little bit earlier, within 2 weeks, it is vandalized, and it is impacting the community. It becomes a detriment in that block. And we used something similar. It was years ago, a HUD program to deal with their housing crisis they had at the time, but working through nonprofit intermediaries impacted together with this partnership, because $30 billion is a lot of money, but I have to tell you something, it has to be leveraged in many, many, many, many ways.

Ms. VELAZQUEZ. Okay.

Mr. LIZARRAGA. And I would hope that we would provide the capacity and the capacity building that's necessary in order to assist these nonprofits to impact.

Ms. VELAZQUEZ. Mr. Garver. Thank you.

Mr. GARVER. He has made some excellent points, and we are learning firsthand, and it's something that we practice, I mentioned the partnership that goes on within Ohio. And most certainly the pilot initiative I mentioned that we are—will be going to our board next week to finalize and move forward on, but we've been working with the City of Cleveland, which has been so devastated by this foreclosure crisis, and the reality is, you have to work with the local communities and you have to establish working relationship with the nonprofits and then leverage resources, even understanding, as the Housing Finance Agency, we could put every dime we have—tax credits, reserves, put it all on the table, and we couldn't resolve the problem in Cleveland.

So you are absolutely correct. You have to pick your targets. You have to be strategic and invest in neighborhoods, look for anchor projects and start a slow but sure revitalization process.

Ms. VELAZQUEZ. Thank you. Last Tuesday, the Federal Reserve closed the comment period regarding Regulation Z, Truth in Lending. It has come to my attention that, although the Fed's proposal is critical and overdue, it has significant gaps in some areas that will render provisions unenforceable or relatively weak.

For example, in the ability to repay section, they require borrowers suing lenders to prove that lenders exhibited a pattern and practice in lending when even State's law does not raise the bar that high. Some New York group submitted comments, and I'm wondering if any of you have submitted comments or have any concerns regarding that requirement.

The CHAIRMAN. This is on the Fed's subprime under HOEPA.

Ms. VELAZQUEZ. No? Okay.

Mr. GARVER. I'm not aware of any.

Ms. VELAZQUEZ. Thank you very much.

The CHAIRMAN. The gentleman from Colorado.

Mr. PERLMUTTER. I have a couple of questions. One is kind of a rhetorical question, but do any of you know where this phrase "moral hazard" ever came from? I mean, I have been involved in financial services stuff for 25 years, and until this year, I never heard about moral hazard. So, rhetorical question. Maybe the chairman knows.

Also, what is Neighborhood Works? Is that a private contractor?

Ms. CROWLEY. NeighborWorks America?

Mr. PERLMUTTER. NeighborWorks.

Ms. CROWLEY. It is a national organization, with a direct line item in the Federal budget. It was previously Neighborhood Reinvestment Corporation, and it has a board composed of the Assistant Secretary for Housing and others. It is a longstanding organization that is well-respected, and I think does a very good job.

The earlier question about the NeighborWorks grants related to housing counseling, I have a list of who got those grants, if anybody is interested in seeing it.

Mr. PERLMUTTER. But NeighborWorks is a legitimate passthrough from—

Ms. CROWLEY. Oh, absolutely.

Mr. PERLMUTTER. Okay.

Ms. CROWLEY. Absolutely. It has had a longstanding relationship with groups called Neighborhood Housing Services, which you may be familiar with, in lots and lots of communities that do homeownership programs in local neighborhoods.

Mr. PERLMUTTER. Last question. As we have heard from various panels, and especially last year, we talked about the resets that, you know, the variable rates were going to reset at some high rates which were rates that people couldn't pay, and that was one problem. Another problem was we had these no doc loans and people didn't have income that justified what they borrowed in the first place or at the higher rate maybe. And then finally we have this valuation question where now we see property prices drop.

But the Federal Reserve has taken action to drop interest rates which do assist with any resets that occur this year. In counseling or working with your members or clients, are you able to take advantage of this drop in the interest rates?

Mr. GARVER. I think it helps, but the reality is, we certainly saw it in our refinance program and in working with nonprofit organizations around the great State of Ohio. The reality is, the vast majority of potential applicants are underwater, either from a debt-to-income basis or a loan devalued. In fact, there are many folks in homeownership that you mentioned, no doc and low doc loans, that simply shouldn't have been in that situation.

Mr. PERLMUTTER. Okay. I yield back.

The CHAIRMAN. The gentleman from Ohio.

Mr. WILSON. Thank you, Mr. Chairman. Thank you for your leadership on working on this very important issue for the people of America and certainly for the State of Ohio.

My question is to you, Mr. Garver. In your testimony, you said that there have been some pretty good innovative things that other States are doing, and I'm sure that Ohio is doing them as well. Could you hit on some of those for us?

Mr. GARVER. I would be pleased to do that. Governor Ted Strickland, who obviously is one of your former colleagues, became Governor of Ohio in January of 2007 and fairly shortly after taking office, he established the Foreclosure Prevention Task Force. It was very clear the breadth and scope of the problem in Ohio, and that task force, which was chaired by Commerce Director Kimberly Zurz, was a cross-section of both public and private sector interests, industry and so on and so forth, and came up ultimately with I believe 27 recommendations, a number of which are now in the process of being implemented.

I think the key thing to recognize about this crisis, and we have all talked about pointing fingers and looking and what happened and who did what, what we know in Ohio is, it is a very complex issue and there is not one simple, easy answer to it. It involves partnerships. It involves a comprehensive approach to the problem. And when I look at what we are doing in Ohio, I will just mention a couple of things very quickly.

First and foremost, outreach. There are a lot of folks who just don't understand what is going on. It has been estimated that 50 percent of borrowers don't get in touch with their lender or their servicer until it's too late. And the Ohio Housing Finance Agency undertook its first Statewide outreach campaign, Take a Second Look at your Mortgage, to try and get folks to do something.

And now the Ohio Department of Commerce and the Department of Development are really talking the lead in doing a Statewide media campaign. Last week, Governor Strickland signed a compact for preserving homeownership with nine servicers that focuses on things like helping or having those servicers contact folks so that they have plenty of time to do something.

The willingness to do some large-scale modifications, a number of different steps that are really intended to try and move this forward. I believe it is the first compact of its kind in the country, and it also—the servicers will be reporting back to the Department of Commerce.

We think counseling is very important. Another thing that we think is a relatively new step is mediation. The Ohio Supreme Court has started an initiative with 1,100 attorneys around the State signing up to provide pro bono services. You know, when a foreclosure starts, the servicer or the lender has their legal representation, and unfortunately, the vast majority of homeowners go into a foreclosure with no representation, and the State of Ohio has now put in place an initiative that will enable homeowners that are facing the prospect of foreclosure to have that kind of legal representation.

And most certainly, we continue to look at our first-time homebuyer program. We consider that to be a foreclosure prevention initiative in and of itself. We use mortgage revenue bonds and put in place long-term fixed-rate financing. As I mentioned, our portfolio performs as well as prime loans. We believe when you put people in the right product, they will in fact repay the loan as long as they are educated and know what their responsibilities are.

Mr. WILSON. May I follow up, Mr. Chairman? Mr. Garver, could you give us any indication of the effect that Senate bill 185 has had on the State of Ohio?

Mr. GARVER. I think that's the predatory lending bill that was passed by the legislature. It's too soon to say, to be able to quantify the effects, other than we know they are positive. The unfortunate reality is, it wasn't passed as soon as it could have been. A lot of what has transpired in Ohio didn't have to happen in terms of predatory lending and in terms of people being put into products that they couldn't afford.

We understand there are a number of things that drive foreclosure. Some of those are life events, things like loss of job, a medical situation, a divorce, that type of thing. But the reality is, predatory lending sapped the lifeblood out of a lot of communities and a lot of families. And while we think going forward that bill will be of great benefit in terms of preventing the kind of irresponsible lending that was taking place, the reality is, we have an issue that we have to deal with now.

Mr. WILSON. Thank you.

The CHAIRMAN. The gentlewoman from California.

Ms. WATERS. Thank you very much, Mr. Chairman, again, and thanks to you for these 2 days of very informative hearings, and thanks to all of our panelists who have been so helpful in helping us to understand what's going on in their respective areas and giving us thoughts about how this bill can be the strongest bill possible.

Let me just say to our panelists, I am singularly focused on the servicers. The servicers emerge as the most important element in this foreclosure problem. They are the ones now with the ability to do modifications and workouts. They are independent. They are owned by banks and other financial institutions who have invested in these tranches that have come from the banks and other places. And they say that they have a responsibility based on their contract and liability to pursue collecting those mortgages and doing the foreclosures. Otherwise, they could be sued.

So, we are learning a lot about servicers, this unknown entity, the kind of entity that's off the radar screen, again, that emerges as so important in all of this. We found out they're not regulated by anybody, and that many of the companies like Countrywide, for example, they have their own servicers, but it's a separate entity that's organized as a part, you know, separate and apart from the bank itself.

They are unregulated by anybody. None of our regulatory agencies could tell us anything about them. We don't know a lot about how much money they make on foreclosures. I'm led now to believe that there's a profit in foreclosures for the servicers. Also, I'm not so sure that when we talk about counseling, we're all talking about the same thing. Since I'm focused on servicers, and trying to get workouts and modifications, I don't know if our traditional counselors, the ones who are doing first-time homebuying and helping people to figure out how to buy a home and how to be responsible, whether they're the same people that we're talking about or should be talking about to do workouts.

In order to negotiate with the servicer, you have to know what you are talking about. My mitigation bill goes to the heart of that. My mitigation bill is controversial because it describes what mitigation should be. Some of these companies and these banks have so-called mitigation departments with a telephone number. Nobody's ever there. I've been dialing them. And then I'm finding that they contracted them out to India someplace where people, you know, can't talk to you about what you want to talk about. And we're finding out that when some people talk about mitigation, they're talking about extending the loan, etc., etc., but they're not really talking about workouts that will allow people, for example, who have gotten into these ARMs, not to have to confront these resets in 6 months or a year or 2 years, but would be able to continue, say, for a 5-year period of time or some period of time paying the same amount of money that they got into the loan with.

So we're defining what mitigation really is. And I have asked my staff to take a look at how we regulate these mitigators and these so-called mitigation operations. I want you to tell me anything that you have learned or that you know about the servicers and about their so-called mitigation efforts and whether or not we have enough people trained to negotiate with these servicers to actually get modifications and loan workouts.

Mr. BURROLA. I can go ahead and begin. Our counselors are experienced in both P-purchase and mortgage default counseling. They attend trainings regularly. You know, I would say at average they are at about 8 years or so experience. And this is agencies that are located throughout the country.

To understand post mortgage default side, you need to understand the pre-purchase side to help the family. In terms of working with the servicers, many have expressed to me that some servicers are aggressive, that you're dealing with a new person each time you call, and so the lack of understanding on the family situation isn't there. There has been mentioning that the call centers may be from other countries. And it's kind of set up like call center, so you know—

Ms. WATERS. We know what they are.

Mr. BURROLA. Right.

Ms. WATERS. But I want to know how you deal with them and what you would suggest for us to be able to get a handle. Otherwise, you're not going to get any modifications. You're not going to get any real workouts. So we know all of that. We're learning all of that about the servicers. What do you suggest we do to be able to regulate and control them?

Mr. BURROLA. Well, I think the biggest thing is just with the training. The counselors, when they're trained, they're prepared with documents so when they contact the servicer, they know how to speak on behalf of the family to not be intimidated by the scenario.

The CHAIRMAN. Let me—because we're going to have to rush. Any other members want to comment on—one more.

Mr. LIZARRAGA. Yes. I think that this kind of thinking out of the box was somehow we're going to have to find some way of regulating the servicers. In addition to that, we're finding that more and more the servicers are being owned by banks. You know? Banks are acquiring the services. They like the platform. They like what they have.

And so providing maybe some regulation or additional incentive to banks to do some type of CRA benefit, to incentivize them, might be something you might consider as well.

The CHAIRMAN. Well, I think that's very much what we're talking about going forward and the message we are trying to send to the servicers is to the extent to which we'll get cooperation now will have some impact on how tightly we think we have to regulate them in the future.

The gentleman from North Carolina, Mr. Miller, will be our last questioner on this round, and then the hearing will adjourn.

Mr. MILLER. Thank you, Mr. Chairman. I regret that I have missed some of the questions that you have already had. I think my questions are similar to Ms. Waters', although she's a California liberal firebrand and I'm a soft-spoken Southern moderate.

The proposed legislation is entirely voluntary. And industry appears to have volunteered only to do what is in their obvious self-interest. They've only agreed to modify. They've only volunteered to modify the loans. They know they can't get paid in full. And they can't really collect for amount of foreclosure because there's not enough equity. And they've only agreed to modify just to the extent that they can get paid. I don't think they should get a humanitarian award for that.

And in other loans where the borrowers' financial circumstances are less fragile, which should be most of the subprime loans—since 55 percent of the people who took out subprime loans in 2006 and 2007 qualified for prime loans shouldn't have been in the subprime market in the first place—a lot of them can get out.

A lot of them can sell their house because they do still have some equity in their house. They're not upside down. A lot of them can refinance. But they are suffering too. They're not losing their homes to foreclosure but they're losing their homes because they are selling them, or they're losing a piece of the equity in their home because of equity stripping practices.

Almost everything that we're doing voluntarily or that would be voluntary for industry for whoever holds the mortgage, the mortgagees, servicers, whoever, does not require anything with respect to the other mortgages, where someone can pay, can get out, should we not find a way to link what we do to help industry to help the mortgagees in these circumstances to what they're doing with respect to all the other mortgages, where they're doing nothing to help people who are still in predatory loans that stripped equity for middle-class homeowners?

[No response]

Mr. MILLER. Don't all speak at the same time. What else can we do besides what we're doing? Mr. Shelton, you mentioned in the anteroom the bankruptcy legislation.

Mr. SHELTON. Absolutely. Certainly we need more options for the homeowner, the family who is trying to keep their home. And certainly as we've discussed, we certainly need to make sure at the very least Chapter 13 type solutions are made available to the family, to the individuals who are trying to keep their homes as well.

We do it for businesses, we do it for other programs. We certainly need to do it for all American people. And certainly we would prefer to find incentives certainly to help companies step to the plate to do the ethical thing, to do the right thing. But you're absolutely correct. They have not stepped up. They're basically continuing to look for the bottom line profit for themselves in a bailout for themselves. So we would certainly support any option that would help, even mandate the involvement of the services industry to provide assistance to the American family.

Finding that solution has been a very difficult one, as you've seen, and the balance has been very challenging, to say the least.

Mr. GARVER. I think flexibility is the key, as you have suggested, providing the tools to try and help as many folks as possible, knowing that still there will be people that will lose their homes, as they are too far gone. So then the question becomes one of we have to find alternative housing resources for them.

And I know one of the things we're looking at in Ohio, in fact in some of these impacted neighborhoods, is stepping in with our tax credit programs and other initiatives and doing lease—on the floor.

The CHAIRMAN. Would the gentleman yield? The question that he posed is surely becoming more and more important to us. Let me invite any of the panelists, it may not have been something you came prepared to talk about, but if you want to submit something later in writing, this is a topic that is going to engage this committee. So drawing on your experiences, in addition to what you have to say today, please, we would welcome written comments. I'm sorry, the gentleman from North Carolina.

Mr. MILLER. I was happy to have the Chair's intervention there. Anybody else? Before the light turns red and we go vote?

Mr. Garver—I think no one thinks that all homeowners are going to get saved. A lot of people are going to lose their homes.

Mr. GARVER. Yes. But I think we have a responsible, then, to make the best out of a bad situation and look for other ways to reinvest back into those neighborhoods and give folks alternative housing resources.

The CHAIRMAN. Without objection, I will put into the record a statement on behalf of the National Multi-Housing Council, the National Apartment Association, and a joint statement by the Council of Mayors, Association of Counties, Association of Local Housing Agencies, and the National Committee Development Association, in which they express qualified support—and qualified means they want it to go to the cities and counties, and not the States. We are trying to work out some of kind of sharing there. I think we understand the cities will be primary in many places, but there could be problems outside, as came out in the questions, so we are going to try and blend those two.

I thank the witnesses for their testimony, and we certainly remain available for the guests—

Mr. LIZARRAGA. Mr. Chairman, if I may? I just wanted to take the opportunity to thank Congresswoman Waters for introducing Neighborhood Rescue and to thank you for incorporating it into the bill. I understand that is moving forward, and we really appreciate it.

The CHAIRMAN. Yes. We plan to do that, and many of the suggestions that you made, we have already been talking about. Just for your information, this bill will probably be voted on in this committee on the 23rd and 24th of April, so we have a couple of weeks. Obviously, we won't be able to comment on everything, but we are moving in that direction.

The hearing is adjourned.

[Whereupon, at 1:35 p.m., the hearing was adjourned.]

APPENDIX

April 10, 2008

OPENING STATEMENT

FINANCIAL SERVICES COMMITTEE HEARING:

"Using FHA for Housing Stabilization and Homeownership Retention"

Ranking Member Spencer Bachus

April 10, 2008

Thank you, Mr. Chairman, for holding this second day of hearings on proposals to stabilize the housing market and prevent avoidable foreclosures. While the focus of today's hearing is Chairman Frank's proposal to provide $10 billion in grants and loan authority to states and local governments for the purchase and rehabilitation of foreclosed properties and conversion of these properties to affordable housing, I do want to take this opportunity to comment on the Administration's announcement yesterday regarding the *FHASecure* expansion. Like the Chairman's proposal, this expansion of the *FHA Secure* program is designed to help address the adverse economic conditions affecting many communities across America experiencing housing price depreciation and the overall contraction of the credit market.

While we all want to help homeowners and stabilize the housing market, we should not rush to enact legislation which will create clear moral hazards. Expanding *FHASecure* represents a cost-effective reasonable approach that can be implemented quickly and without legislation. This means that struggling homeowners will be able to access the help they need in the very near future rather than having to wait for Congress to enact legislation that could take months to complete. With this expansion of *FHASecure*, the Administration expects about 500,000 families to refinance into fixed-rate FHA-insured mortgages by the end of this year.

With respect to the Chairman's $10 billion proposal, it is important that we proceed carefully before implementing what could be an expensive taxpayer rescue of lenders, investors and speculators who could ultimately benefit from the government's purchase of foreclosed homes and vacant rental properties. We need to focus our efforts on keeping struggling families in their homes. In her written testimony yesterday, FDIC Chairwoman Sheila Bair warned the Committee that "relying too frequently on foreclosure will only perpetuate the cycle of financial distress, risk aversion and declining home prices that we have seen in recent months." We should keep this in mind going forward and take care to not provide incentives that could have the unintended consequence of encouraging lenders to foreclose on single family properties or for landlords to evict tenants.

Lenders can and do already work with state and local governments to transition abandoned properties to good public use. Let me again reiterate my comments at yesterday's hearing— government intervention, no matter how well-intentioned, is likely to do more harm than good in the housing market.

Thank you again, Mr. Chairman, for holding this hearing, and thanks to all of our witnesses for joining us this morning. We look forward to your testimony.

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Financial Services Committee
Hearing "Using FHA for Housing Stabilization and Homeownership Retention"
Opening Statement for Congressman André Carson
April 10, 2008

Thank you, Chairman Frank and Ranking Member Bachus for holding this important hearing on proposals to address the crisis in the United States housing market. As a new member on the Financial Services Committee, I am eager to get working to repair the mortgage market and mitigate further foreclosure incidence.

This particular hearing is of great significance to me as a Representative from Indiana's Seventh Congressional District. My district has suffered with disproportionately high rates of foreclosures and loan delinquencies during this past year. In fact, Indiana has consistently rated among the top 10 states nationally for foreclosures along with Michigan and Ohio. Job loss within the manufacturing sector has spiked unemployment rates within these states. While families cope with this job loss, many of them must also face growing mortgage payments as their subprime loan rates reset creating a very unstable housing environment.

Chairman Frank's proposal is proactive in helping consumers on the verge of foreclosure refinance these risky loans before the foreclosure phase which helps to preserve individual wealth and maintain stability in our communities. The district I represent, which includes most of Marion County and the City of Indianapolis, currently has around 17,000 foreclosed properties and around 7,200 in the preforeclosure phase.

I am further worried about the concentration of these risky loans within the minority community. Of the African American mortgage consumers, over 50 percent received subprime loans along with around 40 percent of Latino consumers. As we work to help those who have already been consumers of these risky mortgage products, we should investigate the how to enhance homeownership among minorities while ensuring individuals in these groups are not unfairly targeted for predatory or risky loans.

The third title in this bill addresses an issue that is becoming more relevant in my district. There are 7,000 vacant homes in Indianapolis. In the Mapleton Fall Creek Neighborhood around the corner from my house, there are over 60 vacant and boarded homes in a 14 block area. We frequently hear how housing vacancies have a negative impact on property values, but as someone who has spent their career in law enforcement, I know that vacancies can also foster violence and theft in our neighborhoods.

According to the 2007 Indianapolis Police Department Annual Crime Report, crime in my city has been on a steady increase since 2002. This is not surprising when you consider the dramatic job cuts in Indiana began in 2001, contributing heavily to Indiana's housing market downfall and creating these thousands of vacancies.

I will be working with the community leaders in Indianapolis to tackle the many obstacles facing neighborhoods with numerous vacancies such as the Mapleton Fall Creek Neighborhood in my district and I am thrilled this important issue is a key feature of the legislation we are discussing today.

I would like to thank Chairman Frank and my colleagues on the Committee for the leadership they have shown on this issue and I look forward to taking part in this effort as a member on this Committee.

COMMITTEE ON SMALL BUSINESS
CHAIRWOMAN

COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE AND GOVERNMENT SPONSORED ENTERPRISES

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Committee on Financial Services
Hearing on
Using FHA for Housing Stabilization and Homeownership Retention
April 9, 2008

Good morning. I want to thank Chairman Frank for holding this hearing today on such an important issue for all Americans.

Our nation is at a crossroad with the current housing crisis threatening the American Dream. It is critical that homeowners are able to rise above these rough economic times and not only reach homeownership but also sustain it.

In the month of February alone, over two hundred thousand Americans entered into foreclosure. This implies that more than 1 in every 50 homes with a mortgage in our country is in foreclosure. With the expectation that this number will only rise, every day that goes by without action means more families are at risk of losing their homes.

This coupled with falling home prices threatens to undermine the wealth of too many hard-working families in our country. We can't let this happen.

These challenges were the topic of discussions of several roundtables and forums that I have held throughout New York City. In these events, local experts and ordinary citizens came together to discuss short and long term solutions to the mortgage crisis. Among the solutions discussed were:

- neighborhood based solutions to prevent community destabilization;
- fostering sustainable refinancing opportunities;
- increased access and capacity building of homeownership and legal counselors;
- passage of a temporary bankruptcy fix;
- the expansion of financial literacy programs; and
- revamping many of our core consumer and lending laws.

These recommendations were the product of collaboration between a broad array of experts with different perspectives on this crisis.

I am glad to see that today's hearing will consider at least two of these alternatives, using FHA to increase refinancing opportunities; and enabling communities to turn around foreclosed properties. In evaluating these solutions, we must ensure that unintended consequences are not created. Most importantly, we need to stop predatory lending activity from returning in other forms.

We know this is not a simple problem that a quick fix will solve. Foreclosures crush a family's dream for economic stability and success. If large numbers of families are only achieving homeownership for short periods of time, we have accomplished nothing. All those who want to enter the ranks of homeowners should not only have a fair opportunity to do so, but also the ability to remain there.

I want to thank Chairman Frank for his leadership and work on the Financial Services Committee and for holding this hearing. Today, without doubt, we will move towards putting an end to the mortgage crisis in order to protect our working families and to bolster our economy. Thank you.

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NCLR

Stemming the Tide of Foreclosures in Latino Communities

Presented at:

Using FHA for Housing Stabilization and Homeownership Retention

Submitted to:

U.S. House of Representatives
Committee on Financial Services

Submitted by:

Victor Burrola
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April 10, 2008

My name is Victor Burrola, and I am the Director of the NCLR Homeownership Network (NHN) for the National Council of La Raza (NCLR), the largest national Hispanic civil rights and advocacy organization in the U.S. dedicated to improving opportunities for Hispanic Americans. I have been working on issues important to low-income families for nine years, and in this role I am responsible for overseeing the technical assistance, training, grants management, and quality control for our 50 housing counseling grantees. I also manage our relationships with lenders, servicers, and other key industry stakeholders.

I thank Chairman Frank and Ranking Member Bachus for inviting NCLR to share our views on this matter. The rising rate of foreclosures is one of the most pressing civil rights issues before us today. Homeownership, historically, has been an important tool used by working-class families to move into the ranks of the middle class. Losing their home means losing the opportunity to send their children to college, save for retirement, and pass wealth on to the next generation.

For more than two decades, NCLR has been committed to active engagement in public policy issues that focus on supporting strong fair housing and fair lending laws, increased access to financial services for low-income people, and promoting homeownership in the Latino community. Ten years ago, NCLR created the NCLR Homeownership Network (NHN). As a network of almost 50 community-based counseling providers, NHN works with more than 30,000 families annually. Since inception, NCLR has helped more than 25,000 families become first-time homebuyers. NCLR's subsidiary, the Raza Development Fund (RDF), is the nation's largest Hispanic Community Development Financial Institution (CDFI). Since 1999, RDF has closed 175 loans totaling more than $94.5 million while leveraging more than $500 million in financing for locally based development projects in 21 states, building the capacity of local nonprofits and creating opportunities for Latino communities. These relationships have increased NCLR's institutional knowledge of how Latinos interact with the mortgage and financial markets, and how that interaction affects their communities.

We commend Chairman Frank for his ongoing work to ensure the American dream of homeownership for millions of Americans. NCLR believes that the "FHA Housing Stabilization & Homeownership Retention Act" would take significant steps toward stemming the tide of foreclosures and easing the burden on neighborhoods. As you well know, many families facing foreclosure today could afford to pay a mortgage if it were affordable. However, as victims of negligent underwriting and predatory lending, they now face mortgages that are wildly unaffordable. Modifying the terms of mortgages for borrowers who are able and willing to pay is the most efficient way to address the crisis.

In dealing with dozens of different housing markets throughout the country, NCLR has developed a keen sense of what community organizations need to respond effectively to the crisis before them. In my testimony today, I will discuss those needs, as well as the ways in which the proposed legislation addresses their challenges. I will conclude by making recommendations for improving the legislation.

Background

Many Latino families face significant barriers to sustainable homeownership. Their unique borrower profiles – such as multiple wage earners and thin credit histories – make them unattractive to many lenders who rely heavily on automated underwriting. Subprime lenders move quickly to fill the gap between market demand and services provided. As a result, Latinos and African Americans are often steered toward the products most profitable to the lender, but which may be expensive and risky for borrowers, regardless of their creditworthiness. Research shows that Latinos are 30% more likely than Whites to receive a high-cost loan when purchasing their home. Other research shows that nontraditional mortgage products such as Option Adjustable Rate Mortgages (Option ARMs) and interest-only mortgages are disproportionately concentrated among minority borrowers; Latinos are more than twice as likely as Whites to receive an Option ARM.

Early in 2007 NCLR joined other members of the Leadership Conference on Civil Rights (LCCR) Housing Task Force in calling on the industry to institute a six-month moratorium on foreclosures for families with the riskiest subprime loans – those with payment shock. A moratorium on this select group of foreclosures would give all parties involved time to identify meaningful resolutions. Our public call not only was met with skepticism, but we were also told that the market would soon correct itself. Not only has the market not corrected, but it continues to worsen. While forecasters are predicting 1.8 million foreclosures in 2008 alone, NCLR is concerned that the height of the crisis for Latinos will not come until 2009 and 2010, when Option ARMs and interest-only loans are scheduled to reset.

For most Americans, homeownership is their first step toward building the kind of long-term wealth that will allow them to send their children to college, save for a secure retirement, and provide for their family in times of unexpected financial emergency. In 2006, Latino homeownership reached an all-time high of 49.7%. Unfortunately, rising foreclosure rates in Latino communities threaten to erode these gains. All Americans rely on financial products to help them buy homes and otherwise build wealth and financial security. Our country cannot afford to leave these families behind, or to ignore the structural barriers that continue to marginalize minority borrowers, preventing them from building long-term sustainable wealth.

Needs of the Latino Community

Through NHN, NCLR has been working in low- and moderate-income Latino communities for more than ten years. After helping more than 25,000 families become homeowners, we have learned what it takes to connect low-income, low-wealth, and immigrant families with sustainable homeownership opportunities. Three years ago we began funding our network to provide foreclosure prevention counseling as well. Through this work, we have gained insight and understanding into the needs of Latino and minority communities neglected by mainstream banks and pummeled by foreclosure, as well as the needs of the community organizations that serve them.

Allow me to begin with a story of one of our clients from rural north Georgia. The Hera family came to visit one of our member groups, Dalton-Whitfield Community Development Corporation (DWCDC). With their hours cut at the local factory, the Hera family qualified for a hardship loan modification – one of the most noncontroversial kinds. All paperwork was properly submitted to the servicer, but the company never responded to their request or returned phone calls by DWCDC. The home was days away from being auctioned, when the lender contacted the agency with the news that they would accept the modification terms, but the family had to come up with an additional $2,000 to cover the legal costs incurred as a result of the property moving to auction. The couple had already scraped together all their savings to pay two months of back payments, as required by their modification. Because of the servicer's delays, the family's plan became unaffordable. They lost their home through a foreclosure auction.

The story of the Hera family is indicative of what we are seeing throughout the country. Loan modifications are not happening at the wholesale level needed to save families from foreclosure. While many in the industry point to statistics stating that many families in foreclosure never reached out to their servicer, our experience is that servicers often cannot respond to borrowers or counseling agencies in a manner adequate to avoid foreclosure.

In addition to delays and capacity challenges with servicers, community-based organizations (CBOs) face five distinct challenges in their work to save families from foreclosure.

- **Voluntary loan modification programs are not working.** Our housing counselors receive hundreds of calls each week from borrowers desperately seeking help in saving their home. Despite the hard work of well-trained housing counselors and the eagerness of families to resolve their situation, we are not seeing the kind of loan modifications necessary to keep families in their homes. There are several factors contributing to the stalemate. First, borrowers with "piggyback" second loans oftentimes discover that the second lender/holder is unwilling to negotiate the terms of the loan, tying the hands of all involved. Another factor is the capacity of servicers to review each delinquent borrower's case and make a determination as to whether they meet the eligibility requirements for a modification. Moreover, servicers are relying heavily on short-term payment plans that last three to six months. This is just a band-aid; the mortgage will be just as unaffordable for that family when the plan expires.

- **More capacity and support is needed.** We thank the members of this committee who have been strong proponents of the Department of Housing and Urban Development (HUD) Housing Counseling Program. Continued support for this program is necessary. It is our understanding that the Neighborhood Reinvestment Corporation (NRC), recipients of $180 million through the fiscal year 2008 HUD Consolidated Appropriations Act, received requests totaling $340 million. We cannot underestimate the demand for housing counseling services. Not only is the demand for housing counseling increasing, but demand for related services is skyrocketing. Homeless shelters, mental health professionals, and legal aid organizations cannot keep pace with their increased client volume. Moreover, the rising number of people looking for affordable rental homes adds to the burdens of an already fragile market.

- **Foreclosure rescue scams are competing with legitimate housing counseling agencies.** Troubled borrowers, many of whom have already been victimized by predatory lenders, are fast becoming the targets of fraudulent foreclosure rescue scams. Borrowers desperate to save their homes are easy targets for predatory lenders who present themselves as "foreclosure consultants" and make unrealistic promises to save the home from foreclosure. Many victims feel as if they have few options and are pressured into signing papers they do not understand. Predators commit to refinances or temporary transfer of deeds in which the family believes they will rent for a short period of time and earn their way back to ownership; others completely misrepresent the documents the client signs. Yet others pose as disinterested parties offering to negotiate with the lender/servicer on behalf of the borrower. In most cases, the contract is written with terms so burdensome it is unlikely that the family will ever be able to recover its home or benefit from the sale of the property. We seeing not only an uptick in this type of activity, but also unemployed real estate and mortgage professionals heavily recruited into this field with the promise of high commissions.

- **Neighborhoods are in decline.** A growing number of communities are struggling to keep up with the growing number of vacant and abandoned homes. This phenomenon is especially prevalent in minority communities where risky mortgages are concentrated. Vacant and abandoned properties lower neighboring property values, become safety hazards to the community, and pose serious costs to municipalities in the form of maintenance and lost tax revenue. Many cities not only lack the funding to maintain the properties, but many also lack the necessary technical expertise to address the problem.

- **Ownership opportunities are drying up.** With mortgage rates at their lowest point in years, many families may be able to purchase a home with the assistance and protection of affordable homeownership programs. We have serious concerns, however, about the credit crunch and its impact on the ability of mortgage-ready families to purchase a home. For example, we have heard reports from the field that the Federal Housing Administration (FHA) is no longer insuring mortgages for zero credit score borrowers. As mentioned above, 22% of Latinos do not have credit scores, but most can still demonstrate their creditworthiness by documenting on-time rent and utility payments. Other lenders are putting similar policies into place, along with so-called "Declining Markets" policies that raise Loan-to-Value (LTV) ratios in certain neighborhoods.

"FHA Housing Stabilization & Homeownership Retention Act"

NCLR applauds Chairman Frank and others who worked on this bill for putting out an aggressive legislative plan to save the homes of thousands of families. Generally speaking, NCLR is supportive of the concepts included in the bill. We would like to discuss three areas of the bill which we think are critical to our communities, as well as three areas where we have some concern. The three provisions we believe are critical to maintain in the final legislation are:

- **FHA insurance for mortgage retention.** Title I of the proposed bill is the heart of the legislation. As stated above, troubled borrowers are not able to access loan modifications that emphasize long-term affordability. Without the ability to modify or refinance their existing mortgage, most families will not be able to avoid foreclosure. While we have some technical concerns, discussed below, there would be no real relief for troubled borrowers without this provision.

- **Flexible underwriting.** NCLR strongly supports the flexible underwriting standard in Title I. As previously described, many borrowers currently facing foreclosure find themselves in such a position through no fault of their own. NCLR has serious concerns about the long-term impact of predatory lending on minority families' credit, and therefore on their ability to access important financial products. Instructing FHA to look past any delinquency or default when underwriting the new mortgage not only opens the doors to this program to more families, it also helps predatory lending victims begin to rebuild their credit.

- **Loans and grants for purchase of foreclosed homes.** As described above, neighborhoods are struggling to keep up with the challenges created by vacant and abandoned properties. The concept of extending a combination of loans and grants to states and cities to address this issue is one that NCLR supports. Cities require flexible dollars to address the fallout from foreclosure according to their market needs.

In addition, there are three areas where we have some concern. These are:

- **Lack of capacity to pay standard is too strict.** The bill proposes a mortgage debt-to-income (DTI) standard of 40% as a criterion for establishing lack of capacity to pay the existing mortgage, and requires that this standard be met as of March 1, 2008. NCLR is seriously concerned that this will block thousands of Latino families from the program. The focus on mortgage DTI is too narrow and would fail to capture the entirety of the borrower's circumstances. HUD has long held the standard that paying more than 30% of a family's income toward housing is considered unaffordable. Residual income should also be a consideration. Moreover, as we describe above, we are concerned that the peak years for foreclosures among Latino borrowers will be in 2009 and 2010, when Option ARMs and other Alt-A products are predicted to reset. Therefore, the cutoff date of March 1, 2008 would leave a significant segment of the Latino community out of the program.

- **Timing will be an issue.** While we understand the goal of being efficient and accountable with the funds made available under this program, we are concerned that some of the timelines set out in the bill are too strict. For example, Title I eligibility criteria state that only borrowers whose loans were originated between January 2005 and July 2007 would qualify. In certain markets, Alt-A mortgages such as Option ARMs and Interest-Only loans were still being originated. Many of these loans were subject to the same negligent underwriting used in the subprime market, and many of the borrowers will be exposed to the same kind of payment shock. In addition, we are concerned about the sunset provision in Title I. With FHA taking on the ultimate role of arbiter in the transaction, questions arise as to its capacity to handle the pace and volume of mortgages which the market will demand. With regards to Title III, we believe the two-year sunset, as well as some of the short-term deadlines with the states, are not practical. As noted above, research shows that Option ARMs and other Alt-A mortgages are expected to reach their peak level of resets in 2009 and 2010. Therefore, we are expecting the need for neighborhood stabilization and property acquisition, rehab, and sale to continue for several years past the sunset.

- **The stabilization fund presents operational challenges.** As an organization involved in both the lending and development side of housing rehabilitation work, NCLR has three concerns about how the fund will work. First, as stated above, the narrow timeline outlined for states, including creating a plan, identifying designees and properties, and distributing funds, is too strict. If left unchanged, the bill lends itself to large investment corporations that specialize in turning over Real Estate Owned (REO) property. While the investment firms may be able to deliver scale, they are not necessarily skilled in community development, housing counseling, or retail sales at the local level. Past experience with such wholesale asset disposition activities, such as those of the Resolution Trust Corporation (RTC), has taught us that property management (when homes do not sell fast enough) becomes an important part of the equation. Thus, we believe this bill fails to recognize the critical roles of neighborhood Community Development Corporations (CDCs) and other CBOs that specialize in local development and have an active pipeline of families who are being prepared through housing counseling programs to purchase property. With their involvement, neighborhoods will be more likely to be repopulated by local families, whether through rental or ownership, rather than by outside investors. Finally, we are concerned that the small proportion of grant funding, relative to loan funds, favors, again, large investment firms. If the grant funding is insufficient to cover the costs of maintenance, rehab, downpayment assistance, and sale – as we believe it is – then the incentive is for the firms to hold the properties until the market improves and they can recapture more of their costs.

Recommendations

- **Extend the eligibility cut-off date.** Unless Congress extends the cut-off date for demonstrating a mortgage as unaffordable, thousands of Latino and other Alt-A borrowers will be left out of the program. NCLR strongly urges the committee to extend the cut-off date to December 2010.

- **Allow for more flexible timelines.** Titles I and III have two-year sunset provisions. In both cases, NCLR urges the committee to extend these to five years. This will allow more time for the market to play out and to ensure that all eligible communities and borrowers are able to access the program.

- **Create two separate funding streams for nonprofits putting families into rehabbed homes.** Local CDCs and CBOs have an important role to play in resuscitating neighborhoods from the damage created by foreclosure. So that neighborhoods are not held captive to outside investment warehouses, NCLR recommends that Congress create a set-aside for qualified local nonprofits that could be responsible for the program marketing, counseling, and loan qualification for qualified families. REO contractors would rely on this pool of qualified borrowers for their unit sales. This way, Congress can ensure that some portion of the funds will be spent locally and through organizations that directly serve the interest of the community.

- **Investigate foreclosure rescue scams.** NCLR calls on members of the House Financial Services Committee to hold a hearing on investigating foreclosure rescue scams. Not only are these fraudulent services competing with legitimate HUD-certified housing counselors, they are also likely to be a direct competitor for the FHA program proposed in this legislation.

Testimony of Sheila Crowley, MSW, Ph.D.
President of the National Low Income Housing Coalition
presented to the
Financial Services Committee
United States House of Representatives
April 10, 2008

Chairman Frank, Ranking Member Bachus, and Members of the Committee, thank you for the opportunity to testify today on the proposed FHA Housing Stabilization and Homeownership Retention Act, specifically on Title III: Loans and Grants to States for Foreclosure Relief/Mitigation.

I am Sheila Crowley, President of the National Low Income Housing Coalition; our members include non-profit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, private developers and property owners, housing researchers, local and state government agencies, faith-based organizations, residents of public and assisted housing and their organizations, and concerned citizens. The National Low Income Housing Coalition does not represent any sector of the housing industry. Rather, NLIHC works only on behalf of and with low income people who need safe, decent, and affordable housing, especially those with the most serious housing problems. NLIHC is entirely funded with private donations.

Who is Affected by Foreclosure?

The major concerns of the National Low Income Housing Coalition in the foreclosure crisis are with the fate of low income people and renters. The lower a household's income, the less able it is to cope in the face of foreclosure. Renters who have the misfortune of having landlords who lose their property to foreclosure are the completely blameless victims of this catastrophe. Low income renters who live in properties subject to foreclosure are in real trouble, lacking the resources to easily relocate.

Unfortunately the data on both form of tenure and income of families affected by foreclosure are not collected in any form that makes examination easy. But we do have some indicators. For example:

- An analysis by NLIHC of bank owned/REO transactions and foreclosure auctions in Massachusetts from January 1, 2007 to March 19, 2008 shows 8,398 foreclosed residential properties with an estimated 13,119 housing units. One-family houses and condo units accounted for just 43% of the units.
- The same analysis of Connecticut bank owned/REO transactions during the same period shows 1,532 foreclosed residential properties with an estimated 2,305 housing units. One-family and condo units accounted for 44% of the units.
- The Rhode Island Housing Finance Agency reports that 51% of the foreclosures initiated in Providence in February 2008 are of two to five family properties.

- The Hennepin County (MN) Taxpayer Service reports that 38% of foreclosures in 2006 involved rental property; the figure was 56% for the City of Minneapolis
- CBS News reported on March 27, 2008 that based on Realty-Trac data, "38 percent of foreclosures now involve rental properties," affecting "at least 168,000 households nationwide."

NLIHC also has gleaned income data from housing counseling agency program reports. The attached chart shows income data of clients seeking foreclosure related counseling. The range of percent of clients with incomes at 50% area median income (AMI) or less is 18% to 88%, with a median of 47%. The range of percent of clients of incomes at 30% AMI or less is 3% to 40% with median of 22%.

Though hardly comprehensive, these data support the numerous news reports that renters are a significant portion of families who are losing their homes due to foreclosure. A working estimate is 40%. The data also support the anecdotal reports from local service providers that very low (50% AMI or less) and extremely low (30% AMI or less) income families are a significant portion of those who are losing their homes due to foreclosure. A working estimate for very low income families is 50% and 20% for extremely low income families.

Policy Implications

Renter Protection. There is considerable variation from state to state on the rights of tenants when the owners of their homes lose their property to foreclosure. Some states have enacted tenant protection laws that give the tenants a reasonable period of time to relocate. Others have very draconian rules. I received a report of two Alaskan families who had become homeless after losing the homes they rented due to foreclosure with just seven days notice.

Although renter protection language was included in H.R. 3915 that has passed the House, this provision would only be applicable if the mortgage on the rented property was entered into after enactment. Current tenants should be protected as well. Please include such language in the bill under development.

We recommend that for every foreclosure begun after the date of enactment of this legislation, if the current occupant is renting the property, the entity that takes ownership of the property must honor the lease of the current leaseholder or allow the leaseholder to continue to occupy the property for at least six months, whichever is longer. State laws that provide greater protection should not be pre-empted. The provision should apply to single family as well as multi-family property owners. This provision should continue to apply when the property is resold to a new owner, unless it is a single family home that the new purchaser intends to occupy as his or her primary residence.

Emergency Assistance. The dominant discussion on assisting households at risk of foreclosure centers around helping them negotiate work-out arrangements with their lenders or refinance their homes with FHA insurance. These are important, but insufficient, actions. Lower income families faced with eviction either because they were foreclosed upon or their rented home was subject to foreclosure often lack the resources to transition to a new living arrangement. For example, they may not have the immediate funds to pay moving expenses or required security and utility deposits.

To prevent people from actually becoming homeless, we recommend a one-time supplemental appropriation of $300 million to the Emergency Food and Shelter Program. The purpose is to provide direct financial assistance to be used solely for housing-related assistance needed to prevent homelessness in connection with the foreclosure on a dwelling occupied by an eligible family. This assistance will include relocation expenses, security and utility deposits, mortgage payments, rent payments, utility payments, and other foreclosure or eviction prevention expenses. An eligible family is one who owns or rents a dwelling subject to foreclosure or a unit in a dwelling subject to foreclosure, is legally responsible for the rent or mortgage payment on that dwelling, and does not have the financial resources to avoid becoming homeless if the dwelling they occupy is foreclosed upon.

The Emergency Food and Shelter Program was established in 1983 as a program at FEMA, but is run by the United Way of America and governed by a National Board composed of representatives of major charities, including Catholic Charities USA, United Jewish Communities, the Salvation Army, and the United Way. The National Board distributes funds to 2,500 local boards that in turn make grants to 11,000 community based non-profits and faith-based organizations to provide assistance to needy families. The program is highly regarded as an efficient service delivery system. The United Way reports increased demand for EFSP assistance due to foreclosure.

Preventing homelessness due to foreclosure should be a top public policy priority. Homelessness is highly traumatic for the families who experience it and much more costly than the modest amount of assistance needed to prevent it. Our proposal for $300 million will provide $3,000 in assistance for 100,000 families. It would seem to be the least we can do.

I am aware that as a FEMA program, the Emergency Food and Shelter Program is not under the jurisdiction of the Financial Services Committee. We are working with the Homeland Security Committee for consideration of this proposal and request the endorsement of the Financial Services Committee.

Changes to Title III: Loans and Grants to States for Foreclosure Relief/Mitigation. We have previously submitted a letter to Chairman Frank with several recommendations to strengthen the proposed loans and grants to states. Giving states the ability to buy foreclosed homes and put them back into service makes good sense. However, the program should be designed to also address the most pervasive and long-standing housing problem of every community, that is, the shortage of affordable rental housing.

This shortage is well-documented. Just this week, NLIHC released the latest edition of our widely cited report *Out of Reach*. The primary measure of housing unaffordability reported in *Out of Reach* is the Housing Wage, that is, the hourly wage that one must earn working full time in order to afford to rent a modest home. The Housing Wage this year for Boston is $26.02, an increase of 41% since 2000. In Birmingham, the Housing Wage is $13.27, 36% higher than it was in 2000. The figure for Los Angeles is $25.00, up 62% since 2000; for Martinsburg, WV, it is $13.10, up 39% since 2000.[1]

Nationwide, there are just 38 rental homes that are available and affordable for every 100 extremely low income families. The comparable figure for Massachusetts is 51 homes; for Alabama, it is 56. In California, it is just 23 units, and in West Virginia, it is 51.[2]

The competition for affordable rental homes is intensifying as families who have lost their homes to foreclosure flood the rental housing market. One critical intervention needed by the Federal government is to expand the supply of affordable rental housing, reducing the number of people at the bottom of the wage and income ladder who will be squeezed out of the housing market altogether.

Therefore, first and foremost, we recommend that at least 25% of the proposed $10 billion in grants and loans be for the benefit of extremely low income households and agree strongly with Ms. Waters's proposal to do so in H.R. 5678. The preference for grants and loans to support housing for the lowest income families for the longest period of affordability provided in Mr. Frank's proposed bill is an important measure. But in the absence of specific requirements for deep income targeting, there is no guarantee that any of these funds will be used to create more housing options for those with the fewest choices. Also, new owners who rent out their properties should be required to accept Section 8 housing vouchers.

We also urge that the use of these grants and loans minimally not result in a net loss of rental units in any jurisdiction that receives this assistance. An existing tenant who is occupying a foreclosed property should be able to continue to do so if he or she so desires, unless the new owner will use the property as a primary residence. Relocation related expenses, including the payment of security deposits, should be provided for lower income tenants who choose to or must move.

Another recommendation to improve the draft legislation is to remove the requirements that properties eligible for purchase with grants or loans be "predominately vacant" in the case of multifamily housing and "vacant" in the case of single family homes. These vacancy requirements for eligible properties will encourage the eviction of innocent tenants in order for the property to eligible for purchase through this program. Displacement of renters should be avoided at all costs as they offer stability to the neighborhoods in which they live. Forcing them out will serve to destabilize neighborhoods, contradicting the basic objective of the legislation.

Additional recommendations include:

- The program should be administered by HUD and HUD standards for rent reasonableness and housing quality standards (or local building codes, whichever is more stringent) should apply.
- The formula for distribution of the funds to states should:

[1] Wardrip, K. E.; Pelletiere, D; and Crowley, S. (2008) *Out of reach 2007-2008: the wait for a home grows longer.* Washington, D.C. National Low Income Housing Coalition.

[2] Pelletiere, D. and Wardrip, K. E. (2008) *Housing at the half: A mid-decade progress report from the 2005 American Community Survey.* Washington, D.C.: National Low Income Housing Coalition.

a. Explicitly include median multifamily home prices.
b. Explicitly include the number of units represented by each foreclosure, instead of the number of foreclosures on "homes."
c. Use data from a longer period of time, perhaps the most recent eight quarters, versus the most recent two quarters, for purposes of allocating appropriated amounts.

- Eligible entities to receive funds should include public housing authorities, non-profits, and for profit companies.
- Accountability should be strengthened by including specific reporting requirements about the number and income of families served, specific uses of the grants funds, status of loans and activities funded by the loans, identification of all recipients of grants and loans, and the degree to which the program has affirmatively furthered fair housing. These reports should be made publically available.

Finally, careful attention should be paid to the right pricing of any homes to be purchased and resold. A new analysis by NLIHC and the Center for Economic and Policy Research shows that in many metropolitan areas where housing costs have been greatly inflated, the cost of home ownership far exceeds the financial benefits. For example, in Boston, the monthly cost for a 30 year mortgage at 7% interest for a house selling at 75% of the median house price is $2,340. The Fair Market Rent for a two bedroom home is $1,084 a month. We do not know how far the market will fall or where the bottom is. In still inflated markets, new owners will not accrue equity to justify expending over twice the monthly housing cost differential between home ownership and renting.[3] We urge caution in using public funds to subsidize homeownership at prices that have not yet hit bottom.

A Plea for Balance

There is plenty of blame to go around for the U.S. mortgage foreclosure crisis that is causing international economic turmoil. Included among the contributors to the crisis must be those thought purveyors and policy makers who have uncritically promoted home ownership as the idealized form of housing tenure in the United States and the path to the middle class for low income people. The rhetoric on home ownership in America equating it with worthiness and patriotism, in a political era that favored an under- or unregulated market, created a fertile environment for risky and unscrupulous lending practices to flourish, while people who should have known better colluded or looked the other way.

A social environment saturated with messages that have propelled low income people to seek home ownership at all costs has also delivered the corollary message that rental housing is inferior. And if rental housing is inferior, rental housing affordable for low income people is downright undesirable. We need look no further than the diminished federal investment in low income housing programs for evidence of the neglect of the rental housing sector. The virulent protests that erupt in communities across the country when proposals to build more low income

[3] Baker, D.; Pelletiere, D. and Rho, H.J. (2008) *The cost of maintaining ownership in the current crisis: Comparisons in 20 cities.* Washington, D.C.: National Low Income Housing Coalition and Center for Economic and Policy Research.

rental housing become public also demonstrate the degree to which rental housing is rejected as a necessary housing choice in a healthy community.

The interventions that you devise for this immediate crisis should not be for the purpose of restoring the status quo. The U.S. housing market is in desperate need of rebalancing. Purchase prices need to make financial sense. Costs and incomes need to be more in sync. Homes need to be more reasonably sized and better for the environment. Communities need to make sure that their housing stock matches the needs of the people who live there. Tax policy needs to reward moderation, not excess. Most of all, housing needs to be understood much more as the place where one is sheltered and carries out family life, and much less as a financial asset and a source of wealth building. I urge you to use this galvanizing moment that has the potential of producing significant policy changes at considerable cost to the Federal Treasury to lead the way to more balanced housing policy and a more balanced housing market.

Thank you for consideration of my remarks.

Summary of Foreclosure Counseling Data
Based on NLIHC Outreach to Housing Counseling Agencies and Intermediaries

Organization	Time Period	ELI 0-30% AMI	VLI 31-50% AMI	ELI + VLI <50% AMI	LI 51-80% AMI	Total Low Income (<80% AMI)	Not LI >80% AMI	Sample Size	Notes
Los Angeles Neighborhood Housing Svcs	Oct 2007 - Dec 2007	[redacted]		18%	23%	41%	53%	?	May be indicative of high-cost areas. 6% did not report.
Boulder County Housing Authority	Oct 2006 - Sept 2007			34%	27%	61%	39%	323	
Money Management International	Jan 2007 - Mar 2008	18%	18%	36%	27%	63%	37%	55,500	Households categorized into numeric income ranges and compared to FY07 US median family income.
CHAPA	Oct 2006 - Dec 2007	[redacted]		39%	29%	68%	32%	440	
Indiana Housing & Community Dev.	3 months (?)			29%	40%	69%	31%	6,799	Households categorized into numeric income ranges and compared to FY08 US median family income.
Homeownership Preservation Foundation (888-995-HOPE)	Jan 2007 - Dec 2007	17%	25%	42%	30%	72%	28%	84,000	Households categorized into numeric income ranges and compared to FY07 US median family income.
Operation Hope (Los Angeles)	Apr 2007 - Feb 2008	24%	23%	47%	26%	73%	27%	2,567	% Low Income (<80% AMI) increases to 76% if those receiving government transfers are included. Households categorized into numeric income ranges and compared to an average of FY07 & FY08 US median family income.
Housing Partnership Network	Oct 2006 - Sept 2007; Jan 2008 - Mar 2008	[redacted]		53%	28%	81%	19%	10,153	Based on data from 31 agencies in 24 states.
East Side Organizing Project (Cleveland)	Jan 2007 - Dec 2007	27%	30%	57%	26%	83%	17%	?	
Minnesota Home Ownership Center	Oct 2006 - Dec 2007	[redacted]		56%	27%	83%	17%	5,868	Similar data from Chip indicate that 20% are ELI and 28% are VLI for a total of 48% at less than 50% AMI.
Montana Department of Commerce	Oct 2006 - Sept 2007	3%	30%	33%	51%	84%	16%	37	Actual incomes compared to state median family income; assumes 4 persons per household.
New Hampshire Housing	Oct 2006 - Jan 7, 2008	[redacted]		59%	27%	86%	13%	195	Income categories approximated from numeric income categories.
Whitfield Co - Dalton, GA	Sept 2005 - Mar 2008	22%	32%	54%	32%	86%	14%	176	
New Jersey Citizen Action	Oct 2006 - Dec 2007	[redacted]		32%	56%	88%	12%	238	
Idaho Housing and Finance Association	Oct 2006 - Dec 2007			62%	28%	90%	10%	1,391	Includes 319 receiving HECM counseling.
Omaha Financial Housing Advisory Svcs	Jan 2008 - Mar 2008	40%	35%	75%	20%	95%	5%	254	Contact assures me that the high number of elderly clients seeking Reverse Equity Mortgage counseling are also at risk of foreclosure. The elderly clientele is likely suppressing income levels.
Maine State Housing Authority	Oct 2006 - Sept 2007	[redacted]		88%	9%	97%	2%	43	Most clients were over 60, likely suppressing income levels.
	Median	22%	30%	47%	27%	83%	17%		

External Validation - Not Specifically Foreclosure Counseling

HUD-9902 Cumulative Totals	Oct 2005 - Sept 2006	[redacted]		52%	30%	82%	19%	1,549,814	All Counseling and Education Activities; only 11% involved mortgage delinquency.
Mississippi Home Corporation	Oct 2006 - Sept 2007	[redacted]				85%	15%	2,553	All households reported on HUD-9902. Only 161 received foreclosure counseling.

"USING FHA FOR HOUSING STABILIZATION AND HOMEOWNERSHIP RETENTION"

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES

THE HONORABLE BARNEY FRANK, CHAIRMAN
THE HONORABLE SPENCER BACHUS, RANKING MEMBER

TESTIMONY OF ADRIAN M. FENTY
MAYOR
DISTRICT OF COLUMBIA

THURSDAY, APRIL 10, 2008

Chairman Frank, Ranking Member Bachus, Members of the Committee on Financial Services, my name is Adrian M. Fenty, and I am the Mayor of the District of Columbia. Thank you for inviting me to testify today on your proposal to reduce the foreclosures affecting people, and communities, throughout the nation.

You've no doubt heard from countless housing and economic experts as you crafted the legislation we're discussing today. But my fellow mayors and I are here today because at its core, this issue is not about numbers. It's not even about mortgages or interest rates. It's about people. Shelter is a basic human need, and my Administration hears every day from residents who need our help in keeping their homes.

So I would like to express my full support for your FHA Housing Stabilization and Homeownership Retention Act of 2008 and discuss some of the ways the bill would positively impact the people District of Columbia -- as well as the nation as a whole.

We must move quickly to shore up our national economy. We know that the effects of the subprime lending crisis have gone beyond housing to affect the economy as a whole. Here in the District, we are somewhat fortunate because the recent increase in foreclosures has been relatively modest. But the potential impact on our economic well-being is significant. The ripple effect of those foreclosures has been a tighter credit environment and declines in real property values. This is of great concern to me, and to other local elected leaders.

An October 2007 Joint Economic Committee (JEC) Report projected that "there will be approximately 1.3 million foreclosures and a loss of housing wealth of more than $103 billion through the end of 2009 (including approximately $71 billion in direct costs to homeowners and $32 billion in indirect costs), caused by the spillover affects of foreclosures."

As of last fall, residents of the District had more than 11,000 outstanding subprime loans and had experienced almost 2,000 subprime foreclosures. While this is a fairly low rate in comparison to many other states, the subprime lending crisis has still affected us quite severely -- through loss in home values, neighboring property values, and property tax revenues totaling over $257 million -- as predicted by the JEC. In addition, we cannot know how many of the 9,000 remaining subprime loans in the District will end up in foreclosure.

Our local government offers dedicated mortgage default and potential foreclosure counseling to clients who have fallen behind in their mortgage payments. As demand for this type of individual counseling has increased over the past year, some counselors have increased their services in response by providing specific foreclosure prevention "clinics" that are advertised in the community.

The FHA Housing Stabilization and Homeownership Retention Act of 2008 would help District residents by offering direct assistance to homeowners in foreclosure and providing us with additional resources to support our existing affordable housing programs, especially those that use vacant or foreclosed properties. The legislation would also slow the rate of foreclosures regionally and nationally, along with their potentially devastating ripple effects.

Expanded FHA Refinance for Individual Borrowers

In the District, we have two homebuyer assistance programs -- the Housing Purchase Assistance Program (HPAP) and the Employer Assisted Housing Program (EAHP). We have found that first-time homebuyers who took part in these programs have not fallen victim to the current mortgage foreclosure crisis at the same levels as other jurisdictions. We believe this is because all participants go through a comprehensive homebuyer training program. Also, the loan processors for these programs evaluate the borrower's *entire* home financing package—not just the District's second trust loan—and restrict borrowers from entering into home mortgage assistance that would be detrimental in the long term.

Still, for other residents of the District who are not first-time homebuyers or have purchased their homes without government assistance, the expanded HFA-Refinance options provided in your bill would be a very helpful addition. We still have many people living under the weight of subprime mortgages and in danger of mortgage foreclosure.

Loans and Grants to States for Foreclosure Relief/Mitigation

The bill's proposed Loans and Grants program also would be of tremendous assistance to the District. The scarcity of affordable housing has been a crisis for quite some time in our city. So we have already recognized the need for funding tools such as this one, to address current market conditions and create the potential for new affordable housing development. In the District's Fiscal Year 2009 budget, I have proposed purchasing vacant land and buildings, including foreclosed properties, for affordable housing. The local funding I have proposed would allow the District Government to purchase up to 75 such single family properties. The federal funding proposed in your legislation would allow us to significantly expand our efforts to restore foreclosed properties to productive use, having an even greater impact on our critical shortage of affordable housing.

The Loans and Grants program would also greatly benefit the District's "Home Again" Program. This program was established in 2002 to acquire and convert vacant and abandoned residential properties into homeownership opportunities for residents, while eliminating urban blight. This program uses a write-down of land value to subsidize affordable housing development in high cost areas. Using local funds, we plan to create approximately 100 new homeownership opportunities in Fiscal Year 2009 through this program. With the additional federal support provided in this bill, we would be able to increase the number of affordable housing units we make available.

The proposed Loans and Grants program would also support existing programs at the DC Housing Finance Agency. These include workforce housing assistance, simplified financing for developers of affordable housing, and below-market-rate mortgages for families.

Chairman Frank, committee members, I have often said that the future of this country is in its cities. It is in the nation's cities that you will find models of diversity, sustainability and productivity. For our cities to thrive, we must protect the residents who live in them. I want to thank you for your efforts toward that end with the FHA Housing Stabilization and Homeownership Retention Act of 2008.

This concludes my prepared remarks. I'd like to thank you again for the opportunity to testify today, and I am more than happy to answer any questions.

NCSHA

Testimony on Using FHA for Housing Stabilization and Homeownership Retention,

Submitted to the

House Committee on Financial Services

by the National Council of State Housing Agencies

April 10, 2008

Chairman Frank, Ranking Member Bachus, and members of the Committee, I am Doug Garver, executive director of the Ohio Housing Finance Agency. I am testifying today on behalf of the National Council of State Housing Agencies (NCSHA) in support of your economic, mortgage, and housing rescue bill.

NCSHA is grateful to you, Mr. Chairman, for this important legislation and for all you are doing to soften the impact of today's housing crisis on America's working families, communities, the housing market, and the economy. This legislation would provide states many helpful new tools in our efforts to keep families at risk of foreclosure in their homes and put foreclosed properties quickly back into productive use.

NCSHA represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. State HFAs issue tax-exempt private activity bonds (Housing Bonds) and allocate the Low Income Housing Tax Credit (Housing Credit) to finance low-cost mortgages for lower-income first-time homebuyers and affordable apartments for low-income renters in virtually every state. HFAs administer HOME funding in 42 states to provide both affordable ownership and rental housing for low-income families.

State HFAs use Federal Housing Administration (FHA) single-family mortgage insurance in combination with our Mortgage Revenue Bond (MRB) financing programs in 44 states. HFAs used FHA insurance on 35 percent of the MRB loans we originated in 2006.

State HFAs have a long and strong track record of making mortgage loans to lower-income first-time homebuyers at rates they can afford and with underwriting standards they can meet. We have proven that you can help lower-income families achieve sustainable homeownership under more flexible terms than the conventional market offers without engaging in risky lending. HFA MRB loan portfolios are sound, with low delinquency and foreclosure rates.

While state HFAs have not contributed to the subprime mortgage problem, we want to be part of the solution by helping struggling homeowners avoid foreclosure and getting foreclosed homes off the market and into the hands of low and moderate-income buyers and renters. We are committed to doing this prudently, as no one is helped if we repeat this housing tragedy by putting people into housing situations they cannot afford to sustain.

FHA Insurance for Homeownership Retention Mortgages

Several state HFAs have taken steps over the last several months to help homeowners at serious risk of foreclosure hold onto their homes. More than a dozen HFAs, including the Ohio and Massachusetts HFAs, have established mortgage refinancing programs aimed at homeowners with subprime mortgages no lender could have reasonably expected them to be able to repay.

I testified before this Committee last year on Ohio's refinancing program. I would be pleased to share with you, Mr. Chairman, and other members of the Committee and your staff information on Ohio's and other HFAs' refinancing programs and their results to date. Other state HFAs are closely monitoring activity under these programs to inform their own refinancing program plans.

Those HFAs with subprime refinancing programs, including Ohio, have so far experienced disappointingly little volume under them. We and other HFAs have found that many troubled homeowners have one and often times many of the following obstacles in the way of refinancing their mortgages:

- They have waited too long to seek help and are so far behind on their mortgage payments that refinancing is no longer an option;
- Their incomes are too low, debt-to-income ratios too high, and/or credit scores too weak to meet even the more flexible underwriting standards state HFAs impose;
- Their outstanding mortgage obligations exceed the value of their homes, making refinancing impossible without loan restructuring or write-downs, which lenders are often reluctant to permit; and/or

- They cannot afford even the less costly mortgage loans state HFAs offer, and HFAs are constrained from offering more attractive loans terms by resource limitations, their inability to use low-cost MRB mortgage money for refinancing, and the lack of affordable mortgage insurance options.

Your legislation's FHA homeownership retention mortgage program would help lower some of these hurdles. By creating the option of an even more aggressive FHA refinancing product than FHASecure, it would encourage lenders to write down high-risk mortgages that exceed home values to avoid even greater losses upon their foreclosure. It would also allow HFAs and other lenders to offer more affordable and flexible mortgage refinancing products with the backing of FHA insurance.

We believe this FHA refinancing program would be even more successful if Congress would simultaneously authorize the use of the MRB program for subprime mortgage refinancing and increase state Housing Bond authority to accommodate this refinancing activity and increased demand among lower-income first-time homebuyers for affordable, flexible mortgage money in the wake of the subprime mortgage market collapse. House Ways and Means Committee Chairman Rangel has proposed a temporary $10 billion Housing Bond cap increase and MRB refinancing authority as part of housing stimulus legislation, the Housing Assistance Tax Act of 2008, his Committee is expected to report on April 9. Pending Senate housing stimulus legislation contains similar provisions. We urge Committee members to support these provisions and ensure they are part of whatever final housing stimulus bill Congress produces.

NCSHA also suggests the Committee consider the following modifications to the legislation's FHA refinancing program to encourage lender participation and potentially help a broader spectrum of homeowners.

Since this program is voluntary, it must provide adequate incentives for lenders to participate to have any significant impact. We are concerned that many lenders may not be sufficiently motivated to participate in the program if they receive no more than 85 percent of a property's current appraised value, especially when appraised value may be significantly less than the unpaid principal loan balance in many cases.

You may wish to consider permitting higher loan-to-value ratio mortgages to produce greater loan payoffs for current mortgage holders. We suggest that the bill at least allow FHA to insure mortgages up to the same loan-to-value ratio as permitted under its standard single-family insurance products, which is 96.5 percent.

The bill restricts program eligibility to first mortgages originated between January 1, 2005 and July 1, 2007. We recommend you expand this timeframe, as lenders in many states began originating subprime mortgages in significant numbers as early as 2001.

Many eligible loans will have second loans and liens that give other interested parties authority to reject loan payoffs. We suggest you encourage subordinate lender participation by allowing them to share in loan payoffs.

Since some HFAs are currently administering subprime refinancing programs, we recommend you permit FHA to insure program-eligible loans they have already originated.

Homeownership Counseling

Before troubled homeowners can be helped, they must be reached and educated about their options. Given their large numbers and sometimes complex circumstances, this requires substantial resources. For this reason, NCSHA strongly supports the $200 million in loss mitigation counseling funds this bill authorizes for this year and next and urges its quick appropriation.

We also applaud Congress' action last year to provide $180 million of foreclosure mitigation counseling funds through NeighborWorks, with which state HFAs successfully partner in many states. Just last month, NeighborWorks awarded $39 million of these funds to 32 state HFAs. HFAs are already using these funds to train home counselors and support local counseling efforts.

State HFAs are also active participants in HUD's Housing Counseling program. In 2007, 15 HFAs received almost $2.5 million in HUD grants.

Several HFAs, including Ohio, have invested our own funds in housing counseling. When we launched our Opportunity Loan refinancing program last year, our HFA made a $3.1 million grant from agency resources to support the NeighborWorks Foreclosure Prevention Rescue Program. This program has enabled 12 Ohio NeighborWorks organizations, including Neighborhood Housing Services in Cleveland, to offer one-time assistance to moderate-income borrowers who are experiencing temporary difficulties meeting their mortgage payments.

State HFAs are also investing significant resources in proactive marketing and outreach, with the goal of reaching troubled owners early, even before they realize they will soon confront mortgage payments they cannot afford. We have found that if we reach homeowners before they are delinquent on their mortgages, we have a much better chance of helping them. We urge you to allow the use of some counseling funds for this purpose.

State-Administered Loans and Grants for Purchase of Foreclosed Homes

Sadly, despite the best efforts of state HFAs and others to help troubled homeowners keep their homes, many will still lose them. Foreclosure rates are up significantly and still rising in many parts of the country.

Foreclosed properties are especially concentrated in lower-income neighborhoods, which were targeted by subprime lenders. These vacant properties deteriorate rapidly if not quickly resold or put into some other productive use. They destabilize these often already fragile communities by further depressing home values, discouraging investment, and contributing to vagrancy and crime.

The market will not resolve this problem on its own without unacceptable human and economic costs. New buyers simply will not be able to absorb the historic inventory of foreclosed properties we expect to see over the next several years.

State HFAs, partnering with local communities and nonprofit groups, are working aggressively to turn this foreclosed property crisis into an opportunity for low and moderate-income working families. We are looking for ways to acquire and rehabilitate properties and make them available to lower-income families as affordable ownership and rental housing.

Several HFAs, including Pennsylvania, Rhode Island, Colorado, and Minnesota, already have programs underway to accomplish this. Some HFAs, like Pennsylvania and Rhode Island, are modeling these programs on highly successful programs they have operated for many years to revive vacant properties and make them available as affordable housing.

A number of HFAs have contributed their own resources to these efforts, providing grants and loans to community partners and offering HFA financing to those who develop and buy these properties. Some HFAs have built incentives into their Housing Credit allocation plans to encourage developers to buy and renovate foreclosed properties and turn them into affordable rental housing with the Housing Credit.

In Ohio, we are actively exploring foreclosed property programs with our most seriously impacted local communities and anticipate using some of our own funds to support them. But, our funds and those of other HFAs are inadequate to deal with the huge scale of this problem.

Mr. Chairman, your legislation's proposed state loan and grant program would significantly strengthen and expand state HFA initiatives in this area. States are well positioned to undertake this program, as many are already engaged in the kinds of initiatives it is designed to support. We can direct these new, but limited, resources to the areas that need them most. States have strong strategic partnerships with local communities and nonprofits that will be essential to the program's success, and we can bring other resources we administer, like the Housing Credit, to bear in addressing this problem.

We offer the following comments on the program and suggestions for strengthening it.

In most cases, we expect states to lend the money to local partners and use their loan payments to repay the federal loans. Therefore, it is important that the federal loans be non-recourse and bear no interest, as the bill provides.

Based on our experience with similar programs, state HFAs believe it is important for Congress to understand that the full repayment of these loans in the short-term and even over the long-term may not always be possible. Continued home price depreciation will likely make it difficult in some cases to resell properties for what states and their partners will need to pay for them. In many cases, market conditions will make it impossible to recover necessary rehabilitation expenses.

The bill prohibits repeat lending to entities that have previously borrowed amounts under this program and repaid less than 95 percent of the amounts due under previous loans. Because of the difficulty in achieving full repayments, we believe this 95 percent threshold is too high and recommend reducing it substantially.

The chances for higher resale values further into the future after the real estate cycle rebounds is possible, although not certain. Property values in many communities may take many years to recover.

Mr. Chairman, we support the income targeting provisions in the bill. It's appropriate to focus federal assistance on families that need help the most. However, because so many middle-income families and communities are affected by today's housing crisis, broader targeting than usually applies to federal housing programs is appropriate, particularly in the homeownership area.

Broader income targeting promotes economic integration and allows for the rebuilding of communities with a similar economic mix as they enjoyed before the current downturn.

We are concerned that the bill's prohibition on purchases of homeownership properties with prices that exceed 90 percent of average area sales price will limit the program's ability to serve people that need help and stabilize economically integrated neighborhoods. We suggest that the program, at least, include all properties eligible for MRB financing, which would include properties that cost up to 110 percent of average area sales price in economically distressed targeted areas. Many areas hard hit by the subprime lending and foreclosure crisis are targeted areas and would benefit from the increased price flexibility the MRB program affords.

We are also concerned that the bill requires six months of payments before insurance endorsement for new loans with total debt-to-income ratios greater than 40 percent. Delaying endorsement for new mortgages will make it much more difficult for HFAs to include them in their bond-financed mortgage programs. We recommend you permit flexible underwriting standards without the six-month delay.

Mr. Chairman, we are also concerned that the bill's timetables for completing allocations plans, obligating and spending funds, and reselling homeownership and rental properties are unrealistically tight.

Foreclosure proceedings involve complicated legal steps that preclude rapid action. Working though complex mortgage securities, gaining clear property title control, and negotiating with owners and lenders will be time-consuming and difficult. Analyzing rehabilitation costs and working up rehabilitation plans will also take time. We recommend you lengthen the bill's deadlines to balance the need to move quickly with the time necessary to do this job properly.

Mr. Chairman, thank you again for the opportunity to testify on behalf of NCSHA. My colleagues and I stand ready to work with you to improve this bill and advance it rapidly.

Public Witness Testimony for the Record

House Financial Services Committee

Hearing on Using FHA for Housing Stabilization
and Homeownership Retention

April 10, 2008

Submitted by Mayor Oscar Goodman, Las Vegas, Nevada

INTRODUCTION

Chairman Frank, Congressman Bachus and other distinguished members of the Committee, I am Mayor Oscar Goodman of Las Vegas, Nevada. I am honored to appear before you here this morning to discuss an issue of national importance and of pressing need in my city.

Nationwide, 1.5 million subprime adjustable-rate mortgages will reset to higher interest rates this year, and many of those homeowners are at risk of falling behind on their payments. Across the nation thousands of bank owned foreclosed homes already sit vacant. With a record number of mortgages in foreclosure, thousands more are in danger of becoming vacant eyesores, driving down prices in the neighborhoods, and more importantly, families at risk of becoming homeless because they can't find alternative housing. Exacerbating this crisis, last week the largest job loss - 80,000 jobs - since March 2003 was announced and since the start of the year, according to the Bureau of Labor Statistics, 232,000 jobs have disappeared.

Las Vegas, the largest City in the State of Nevada, is located in Clark County. Recent statistics show over 90% of the statewide foreclosures occurring in Clark County. Due to the sub-prime lending practices, the number of foreclosures has tripled in Clark County in just the past year and 60% of our homes are experiencing negative equity. Property values have dropped in Las Vegas by 20% and nearly half of all the homes currently on the market are due to foreclosures. We already feel the impact and are working diligently with extremely limited resources to assist families from becoming homeless. We need federal funding assistance that recognizes our need that goes well beyond a household earning at or below 80% of AMI. The provision to accommodate individuals earning 120% of AMI is critical to any success, and I commend your acknowledgement of this need, as many of our constituents fall within this gap.

The growing inventory of vacant and abandoned properties compounds the negative impact on property values as appraisals and comparable sales affect surrounding properties. Economists estimate a home's value drops by an average of 1% for each foreclosure that takes place within a one-eighth-mile radius. And the negative effect on property values is greatest in areas where foreclosed bank owned properties sit vacant for months, if not years, becoming eyesores overrun by overgrown weeds, graffiti, stagnant pools (which become a safety hazard to young children), broken windows, and dumping grounds for trash and debris.

All of this has a tremendous negative impact on existing neighborhoods and cripples my City's efforts to create safe and livable neighborhoods. I am an avid believer in the "broken window" theory and attest to the fact that when properties are left unattended, it has a trickle down effect on the rest of the community and creates blighted conditions that takes years to turn around. These vacant properties put undue pressures on the public sector through service calls like Code Enforcement, Fire and Police. For example, my Code Enforcement Officers are already reporting that lending institutions, who receive Notice and Orders due to foreclosures, are now requesting the City to move forward with cleaning up their properties and submit an invoice accordingly, because they can't keep up with their inventory and lack of property maintenance issues. Vacant and abandoned properties become a haven for crime further reducing the livability of the neighborhoods. I can't begin to tell you how many times my City Council has acted on Code Enforcement cases due to absentee property owners, and the thousands of dollars the City has fronted annually in order to bring substandard properties into compliance. Our only recourse is to lien properties accordingly to recoup our costs. With the foreclosure issue on the table, we anticipate these numbers will increase and exacerbate the problems associated with providing decent and safe neighborhoods as well as affordable housing

There is also an important loss of tax revenue to state and local governments. The construction industry represents 10-12% of the local economy, and the issues created by slumping new and resale home sales, foreclosure sales, and the post-subprime lending credit crunch have impacted all of the City's major revenue sources. The economic downturn, fueled by the housing market and related credit crisis, has resulted in property tax, sales tax, real estate transfer tax, and even license revenues to fall short of the City's fiscal year 2008 budget targets by approximately $20 million dollars. We have had to lay off City employees and cut our budget impacting valuable services to the community.

FHA HOUSING STABILIZATION AND HOMEOWNERSHIP RETENTION ACT

The proposed "FHA Housing Stabilization and Homeownership Retention Act" is vitally needed to address the ongoing subprime mortgage foreclosure crisis in the United States. I strongly support an expanded role for the Federal Housing Administration in helping qualified borrowers refinance their subprime loans that they cannot afford to an affordable long term fixed rate mortgage. It is crucial for the FHA to play a role like the one you have put forward in addressing this crisis.

The legislation also would provide $10 billion to states in the form of loans and grants for the purchase and rehabilitation of vacant, foreclosed homes with the goal of occupying them as soon as possible. With these funds, nonprofits and state and local governments can acquire bank and government owned properties below market value, perform any necessary rehabilitation and sell or rent them to qualified individuals. The intention is to help stabilize home prices and to begin to reverse the serious physical deterioration of neighborhoods with high foreclosure rates.

Public Witness Testimony for the Record

I would urge you, however, to consider a different or additional approach which would provide a speedier solution. Instead of creating a state based program which will add time and bureaucracy to the response, I would urge you to modify the legislation to consider the approach that my Senator, Harry Reid of Nevada, and others in the Senate are currently sponsoring and considering (in HR 3221, formerly S 2636) which is to use the existing Community Development Block Grant program to deliver this much needed help. As you are well aware, this program allocates 70% of its funds to metropolitan areas and 30% to states. This would require no additional bureaucracy and would provide immediate relief through a tried and trusted method of delivery. As we all know, the foreclosure issue is a crisis throughout our nation. A direct allocation of these much needed funds to metropolitan areas will reduce the bureaucracy and place us in the best position to get the funds operational. The City of Las Vegas stands ready to act if you make these funds directly available to metropolitan areas.

In previous years and in previous disasters, Congress has used the CDBG program to deliver relief with great affect. In the Senate bill, an emergency appropriation for CDBG funding is authorized to be allocated by a formula developed by the Secretary of HUD. HUD would develop a formula that allocates funding to areas of greatest need based on the number and percentage of homes in foreclosure in each state or unit of local government, the number and percentage of homes financed by a subprime mortgage related loan in each state and unit of local government, and the number and percentage of homes in default or delinquency in each state or unit of local government. Eligible activities could be those in your legislation. This would guarantee that I, as Mayor of the City of Las Vegas, would be able to provide relief shortly after enactment of the law to the citizens of my City and I would be accountable for the delivery mechanism of the relief without the additional bureaucracy of a state based program. It would also allow the state to provide relief, through its CDBG program, to smaller communities as well. I would urge you to consider this approach as you move forward either as a substitution for your loan/grant program or in addition to it.

A component of your proposal which I strongly support is the "shared appreciation" provision which requires that borrowers who are assisted by this legislation should repay the federal government 20% of the difference between the net proceeds from the sale of the housing and cost of acquisition of the housing.

CONCLUSION

In conclusion, Chairman Frank, I applaud you and the Committee for bringing forward this much needed legislation and for your commitment to dealing with the subprime mortgage foreclosure crisis in the most efficient and expedient way possible.

UNITED STATES HISPANIC CHAMBER OF COMMERCE
TESTIMONY OF MR. DAVID C. LIZARRAGA
HOUSE FINANCIAL SERVICES COMMITTEE
APRIL 10, 2008

Chairman Frank, Ranking Member Bachus, and Members of the Committee,

Good morning, my name is David Lizarraga and I am the Chairman of the United States Hispanic Chamber of Commerce. The USHCC represents the interests of 2.5 million Hispanic entrepreneurs in this country.

We are honored to be invited to share our views on the housing market with the Committee; in particular, its impact on the economy and what can be done to cushion the impact of this economic downturn.

All business owners, regardless of industry or trade, care deeply about the state of our national economy. Both the entrepreneurial spirit and assets of our community are threatened by an economic slowdown. There is no longer much doubt that unless extraordinary and effective steps are taken, the U.S. economy is heading towards a period of stagflation or as Federal Reserve Chairman Bernanke acknowledged last week, even a recession.

Employment is contracting, the business surveys have weakened, and the negative loops that feed a recession are now in full swing, especially the links between falling housing prices, rising mortgage credit losses, rising credit restraint, and falling homeownership and employment. Adding to these pressures are high energy costs based on oil prices soaring beyond the previously unthinkable $100 per barrel.

The flexibility and dynamic nature of our economy is being strained by this housing crisis. Employees are restricted in their labor mobility, rising credit restraint is affecting businesses, and the very assets used to secure loans for creating new businesses are threatened. For that reason, the USHCC supports the scope and objectives of the Chairman's draft FHA Housing Stabilization & Homeownership Retention Act in order to bring stability to a housing market.

In times of economic crisis we, as citizens and taxpayers, look to our government for the same proactive and responsible action that the Congress and the Administration adopt when dealing with major disasters and emergencies. Residents of one state do not question whether taxpayer funds should be used to help those in need in an affected area. Similarly, we believe that concrete and certain remedies should be prescribed for an economy ailing from this spiraling housing crisis. We have witnessed the unregulated use by the lending industry of new means to attempt to spread risk that sometimes actually concentrated it, resulting in the rise of capital markets sponsorship of new and risky products for the subprime mortgage market.

As a business organization, the USHCC believes in a free market but the magnitude of the situation is so great and the impact so severe, that we believe that the market cannot correct itself without seriously jeopardizing our economy.

In representing both entrepreneurs and the Hispanic community, we see a convergence of interests. Underserved communities and small businesses are some of the biggest losers in this market crisis. The fact is the home is often the first type of substantive asset held by members of underserved communities such as ours. Therefore, foreclosures and losses in home value constitute a loss in perhaps the only substantial asset contributing to the net worth of most members of our community. This means lack of equity to pay for retirement or our children's college, lack of collateral for business loans – even for SBA loans – and a general decline in financial security.

Housing prices are currently falling even faster than expected. And, if home prices were to decline 20% in 2008, some estimates predict that there will be about 15 million homeowners or 30% of all households with mortgages who will have negative equity – that means mortgage debt that exceeds the value of the home. Of these, about $1 trillion in mortgage debt will be with subprime borrowers, but the remaining $2 trillion will be debt that was previously rated prime or near prime. A significant share of these borrowers – and it is hard to know how many – are likely to default. In some states like California, where lenders can only seize the home on defaulted mortgages and cannot seek other assets, homeowners may opt to walk away from their properties rather than weather this overwhelming storm, and hope that their negative equity eventually turns positive.

The cost of this crisis is far too great and the consequences far too severe not to call for action from our federal government. States will lose more than $917 million in property tax revenue as a result of the losses in housing wealth caused by subprime foreclosures, and those losses will also result in lost funding for the schools where our children learn since these are primarily funded by property tax revenues. Estimates are that upcoming foreclosures may lead to a $2.3 trillion economic loss. This is by all definitions a crisis, and it has greatly impacted low and middle income communities, especially Hispanic households.

In this regard, we are also very concerned that this crisis is deeply affecting small and minority business owners, who use their home equity to secure loans to help finance the establishment or expansion of their businesses and employment. This reliance on home equity is often the case because many of these owners, including our Hispanic Chamber members, have very limited or no access to commercial credit. Many such small and minority business owners are now in jeopardy as a result of cascading home values. In light of this situation, we believe that some recognition of these borrowers within the scope of this legislation is needed. Otherwise, most lenders will not even consider working with homeowners who have second liens to finance their small businesses. The lender workout necessary to resolve the situation of just one such homeowner with a second lien for investment into his or her small business might consume as much lender time and effort as two or three homeowners having only a first mortgage.

Since we know the Committee is sensitive to the potential for the mortgage crisis to flow over and become a crisis for America's small businesses, we are hopeful that the

Committee will consider ways by which to ensure that such small business owners with subordinated debt secured by their homes will have an opportunity to work with their lienholders toward FHA refinancing.

Earlier this year, the U.S. Hispanic Chamber of Commerce called for further economic stimulus and investment to reverse the course of our economy and bring us back to economic growth. While as a national business membership organization we are inclined to push for less regulation in the economy, we recognize that our Nation is facing extraordinary circumstances that require extraordinary efforts. We support federal legislation, such as the Chairman's draft FHA Housing Stabilization & Homeownership Retention Act, to bring stability to our economy.

Additionally, I would like to address the Chairman's proposal to provide $10 billion in loans and grants for the purchase and rehabilitation of vacant, foreclosed homes. Under the proposal, the Secretary of the Treasury would accept and approve state plans for loan and grant authority to be allocated to local housing authorities, nonprofits, and private-sector entities for the purchase and resale of homeownership housing and/or rental housing developments.

Of particular importance is the focus on the potential benefits of the proposed 25 percent of the state's funding authority that could be used for grants for purposes that include expenses prior to properties being reoccupied, operating costs such as property management, property taxes and insurance during the period a property is rented, costs incurred for property acquisition, and downpayment and closing cost assistance. In focusing on the grant portion of the Chairman's plan, I believe it would be helpful to include incentives that would foster private sector leverage and long term benefit to communities of the funds proposed for purchase of foreclosed and vacant properties.

While testifying today as Chairman of our membership organization, I do have a "day job", presiding over one of America's oldest, largest and most successful community development corporations. I also chair the board of one of the most unique and successful depository community development finance institutions. In that capacity, we are quite proud of the fact that our community development corporation helped organize the group that chartered Founders National Bank in Congresswoman Water's District, which later joined forces with Boston Bank of Commerce, in Chairman Frank's back yard,, to become OneUnited Bank, the largest African American owned bank in the U.S. and a highly respected community development financial institution.

In all of these activities, we have worked together with major banks and insurance companies, foundations, community development enterprises and non-profits, local small and minority owned businesses, governments agencies at all levels (including HUD, the Office of Community Services, EDA and SBA) to advance private-public partnerships that have dramatically altered the economic dynamics in many low and moderate income communities. These efforts have helped to revitalize urban neighborhoods and rural areas by creating vibrant hubs of economic activity and thousands upon thousands of jobs, homes, and small and minority owned enterprises.

Utilizing initial modest public investments, we have been successful in leveraging tens of billions of private investments in neighborhoods and communities across the country resulting in homes, retail stores, small business development, schools, and community facilities, and job training. These successes have encouraged private investors to redouble their participation in such private-public ventures; and have brought about economic opportunity in these communities.

In each of these successful public-private investments, I would stress that it has often been federal policy to provide a set of incentives to establish the private-public partnerships to assist previously neglected urban and rural communities. I think there is an opportunity again to create such incentives as part of the legislation you are currently contemplating.

However, I am concerned that much of the progress made in turning around entire communities over the past several decades through these partnerships, including the CDC/CDFI led partnerships, could be at risk in the current mortgage and credit market crisis. Entire neighborhoods and large swaths of low and moderate income communities could rapidly deteriorate right before our eyes, with little chance that the local marketplace could foster recovery in the foreseeable future. Given the size of the problem in many communities, the resources attached to a program such as the one being considered today could be overwhelmed – just having to buy enough properties to have a tangible impact could exhaust available grant and loan resources. In addition, a focus only on acquiring foreclosed vacant properties without also attending to the fabric of a neighborhood or community may not have the results hoped for in the legislation. Ending up with publicly acquired vacant properties that might remain vacant for lack of sufficient resources would be of concern.

In light of these concerns, I believe we need to include in the legislation incentives for states, and certainly for localities, to sponsor and promote the leveraging of the resources provided under this legislation through public-private partnerships. If we can achieve the level of success that has occurred in many successful partnerships, we could turn a federal investment of up to $2.5 billion in grants and $7.5 billion in loans into many more billions for investment in low and moderate income communities. While the focus of these partnerships must remain in the near term of stabilizing these communities, we know that once established as part of the fabric of a community, such a partnership can contribute, through reinvestment, to its longer term recovery and economic growth. In this way, we believe that such an approach will help to advance the goals of the Chairman's housing initiative.

We would welcome the opportunity to work with you, Mr. Chairman, and the Committee to help ensure that the kinds of incentives that promote such partnerships and their substantial leverage are achievable.

In conclusion, the United States Hispanic Chamber of Commerce lends its support to the Chairman's draft FHA Housing Stabilization & Homeownership Retention Act as a means to bring stability to our shaken housing and credit markets, and I appreciate your consideration of our suggestions as you further deliberate on this legislation.

Thank you for inviting our organization here today to testify.

Testimony of Mayor Thomas M. Menino
Before the U.S. House Committee on Financial Services
April 10, 2008

- Thank you, **Chairman Frank**, and Distinguished Members of the Financial Services Committee for the opportunity to testify on the *FHA Housing Stabilization and Homeownership Retention Act.*

I want to acknowledge Congressmen Capuano and Lynch and thank them as well as Chairman Frank for their hard work on behalf of the citizens of Boston.

You have asked that I focus my remarks on Section III of the Act, which provides loans and grants to states for foreclosure mitigation and relief.

This important legislation comes none too soon. As strong as Boston is economically, we are seeing every day how the meltdown of our financial system is affecting the lives of people who live in our neighborhoods and call Boston home. Last year, lenders foreclosed on 7 hundred houses – more than three times the level foreclosed the year before. And by the end of 2008, we're projecting another one thousand foreclosures. One foreclosure is one too many.

We have 250 thousand houses in our city. Approximately one half of one percent of this housing stock was foreclosed on – representing 1,200 housing units. While one half of one percent may not seem significant, here's the problem. Our foreclosures are concentrated in the poorest neighborhoods of our city.

They're located where thousands of hard-working people have scraped together money to buy homes through the City's programs. Neighborhoods where the City and its partners have invested millions of dollars in city, state and federal, resources to produce high quality, affordable rental housing.

So, even though our numbers are relatively <u>small</u>, the impact is <u>huge</u> not just for the families who are being foreclosed on but also for people who live next to a boarded, foreclosed building – one that can quickly become unboarded and provide opportunities for drug dealing, chop shops, prostitution, and other illegal activity. We have worked too hard to make these neighborhoods thriving places to live and work. We can do better – we must.

This brings me to the legislation. If there is one thing I want to leave you with today, it's this: A sense of urgency. We must act now.

At the local level, I see the impact of these foreclosures. I know that anyone who takes a look at a street of foreclosed properties comes away with the same feelings I do: frustration and impatience. You want to take immediate action before more families lose their homes – their sense of security and hope. Before more properties become vacant and the people who live in these neighborhoods see their property values decline and crime increase.

I have some specific comments about Section III and I know that you'll consider my remarks in the spirit in which I raise them – to make this legislation the best it can be. Section III ties funding to the number of foreclosures statewide as a share of foreclosures nationally. Some states like Massachusetts, which have relatively few foreclosures, have cities like Boston with concentrated foreclosure activity. I urge you to look at the formula with this in mind – design it so that high impact pockets of foreclosure receive resources and assistance.

In general, I believe the focus on states seems to me a bit misplaced. Focus the resources and the response where it is happening. Cities – and Mayors in particular - are the ones dealing with this foreclosure crisis every day. My understanding is that states will develop their plans and that funding comes once the plans are approved. Think how long it will take for states to get their information from cities like Boston and from smaller communities and then accumulate and digest the information. We can't afford to wait.

We have proven tools and processes that work. I urge you to consider utilizing the CDBG allocation process, where larger cities with the capacity can develop their own plans and have states work with communities that do not have local capacity I strongly urge you to provide direct funding to cities like Boston.

I want to focus now on the reality of foreclosures – dealing with the servicers. My comments are based on our experience in purchasing foreclosed property in the Hendry Street neighborhood of Boston. We bought two three decker homes and two other three deckers that had been converted to condos for a total of twelve units. We also have plans to purchase additional houses if we can attract financing. This bill would be a real boost to our efforts.

I strongly urge you to think through the mechanics of buying from the servicers. Otherwise, the legislative goals will not be achieved and our neighborhoods will continue to be plagued by these properties.

Dealing with servicers and their realtors is extremely time consuming. Realtors have no authority and must get a servicer's approval to sell. Servicers are overwhelmed with the numbers of properties they own and I question whether on a national level, they have the capacity to move with the speed this legislation envisions.

In some cases, servicers don't even know whether the properties have completed the foreclosure process, so they are selling without having the right to sell. We were successful in Boston because I had established relationships with some servicers beforehand.

We looked into whether it made sense to buy in bulk – that is, buy all or part of a servicer's portfolio. We found that the properties held by specific servicers were scattered throughout the city, so we could not find any economics of scale.

Because we wanted to make an impact on an especially devastated four block area, there was no alternative than to undertake the tedious work of contacting and holding on to servicers' commitments, often through realtors who had little financial incentive to move the process forward.

- I urge you to consider adding some carrots and sticks, either in this legislation or elsewhere, to get servicers to sell these lender-owned properties quickly, rather than sitting on them while the properties and neighborhoods deteriorate.
- The legislation calls for a preference for serving "the lowest income families for the longest period." In our experience, having a mix of income levels contributes to strong communities. I am concerned that the plan will have the effect of creating streets where the majority of families are very poor and that this poverty will overwhelm the community.

- I believe it's better to have an economic mix that can include clerks, hotel workers, teachers, and health care workers. In other words, typical American neighborhoods rather than islands of economic despair.

- Having said that, I agree with the upper income limits of 140 percent for the purchase of new homeowners and 100 percent of the median for renters. I support the requirement that these houses be continually occupied. I also support the requirement that enables the federal government to share in the capital appreciation of these houses at the time of resale.

- I also call your attention to the provision that limits the purchase price to 90 percent of the median purchase price in the area. Our experience has been that the foreclosed properties were heavily leveraged. In some neighborhoods, over-inflated values became the standard as serial refinancings increased the amount of the mortgage far beyond the worth of the house absent the unsustainable lending frenzy.

- The servicers have been trying to recoup these inflated values. Some other measure, such as tying the purchase price to an economic trending measure, could be devised so that the American taxpayers are not paying more than a prudent person would pay for these houses.

Finally, I applaud the Committee's definition of "single family housing" to mean "one to four dwelling units." Right now, two of our Community Development Corporations – Urban Edge and Nuestra Comunidad – are working with us to finalize a home ownership refinancing program through NHSA.

The stumbling block: Fannie Mae. Fannie is the ultimate purchaser of the loans. They will buy only single family houses, not the two and three deckers that are the ones primarily affected by foreclosure. I urge the Committee to look into this situation with Fannie Mae and work to develop a resolution.

With this proposed legislation, you are protecting the investments the federal government has made in our neighborhoods through CDBG, HOME, and the Low Income Housing Tax Credit. Otherwise, it will take years to undo the massive damage that a relatively small amount of foreclosed properties can cause in a dense, urban neighborhood.

I deeply appreciate the work of this Committee and hope this bill moves forward quickly in both the House AND the Senate. I hope my comments are constructive and helpful to you. Thank you for allowing me to testify today on this critically important piece of legislation.

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Testimony of Governor Martin O'Malley
U.S. House Committee on Financial Services
"Using FHA for Housing Stabilization and Homeownership Retention"
Thursday, April 10, 2008

Chairman Frank, Ranking Member Bachus, distinguished members of the Committee, thank you for your leadership on this most important of issues, homeownership protection. It is my distinct honor and privilege to testify before you today in support of the FHA Housing Stabilization Retention Act of 2008.

Over the last seven years, we have seen an effort by some at the federal level to do away with regulators and prevent government from intervening on behalf of the common good. Today we see the results: subprime mortgages, communities being prayed upon – an unprecedented foreclosure crisis that threatens the strength and growth of the American middle class.

If we are truly going to see an end to this unprecedented national crisis, we must accept that while government does not have all the answers, it is not the enemy.

Maryland's Response

In Maryland, we identified homeownership protection as an area in which government has an essential role, and an area in which government needed to perform better. In response, we convened a Homeownership Preservation Task Force last summer which brought all the various stakeholders to the table – consumer advocates, the lending community, housing counselors, and State government.

Legislation

Last week, I signed sweeping new legislation born from the Task Force's recommendations, Maryland homeowners will now be guaranteed more time between their first default and foreclosure – valuable time that will allow increase their ability to find a solution and keep their homes.

In addition, thanks to this legislation, lenders will now be required to produce proof of ownership before they may file a foreclosure action, and they must personally serve homeowners to inform them the action has been filed.

Furthermore, this legislation cracks down on unscrupulous predatory behaviors. Now, anyone who commits mortgage fraud in Maryland will be subject to criminal penalties – a clear message that we will not tolerate unscrupulous and corrupt mortgage lending activity. And, we have banned the despicable practice of "foreclosure rescue scams," which prey on homeowners in our most vulnerable communities and strip them of the equity in their homes.

On Tuesday, I signed an additional piece of our legislative package which will tighten lending and licensing standards in Maryland. Lenders and brokers will now be required to verify a borrower's ability to repay a loan – and if the loan has a "teaser" rate, the borrower must qualify for the loan at the fully indexed rate.

This legislation also banned pre-payment penalties for mortgage loans, assuring that refinancing out of inappropriate loan products will not be cost-prohibitive. Mortgage licensees will now be required to have a minimum net worth and have adequate surety bonds to protect consumers.

Further Actions

In addition to legislative reforms we have undertaken several measures to help alleviate this crisis.

Earlier this year we launched the Bridge to HOPE loan program, which provides small, deferred loans to homeowners to allow them to get caught up on their mortgage, and find a better solution than foreclosure. We also created the Lifeline Loan Program and the Homesaver Refinance Mortgage Program to help us refinance homeowners out from under burdensome loans.

Additionally, recognizing the important role housing counseling can play in helping prospective homeowners avoid pitfalls - and in helping existing homeowners avoid foreclosure - we provided grants to housing counselors in our state to partner with us in this crisis.

We are working with lenders to create loan products that will allow government and private lenders to share the risk associated with refinancing loans for borrowers in default, and we are exploring ways to provide incentives for banks to participate.

A Partnership with the Federal Government

Although we are making steady progress in Maryland, our ultimate success depends on a successful partnership with the federal government. I applaud your leadership on this issue, and believe the legislation under consideration today would be crucially important to our efforts.

The Need for Counseling

Housing counselors are a critical resource both for existing homeowners who find themselves facing foreclosure, and for prospective homebuyers who often do not understand the buying and lending process. Oftentimes, homeowners facing foreclosure never pick up the phone to contact their lender. In Maryland, we have tapped local housing counselors to help homeowners interact with their lenders and to help them find much needed solutions.

I strongly support the provisions in this bill to expand housing counseling by authorizing $200 million for these purposes. Further, this should be a multi-year effort, since it will take time to work through the entire foreclosure crisis. I would also request that the legislation include provisions for HUD to conduct public outreach efforts to encourage owners at risk of foreclosure to contact housing counseling agencies. Educating current and potential homeowners about the home buying and foreclosure processes is critical, particularly when dealing with subprime and predatory lending.

The Need to Acquire, Rehabilitate, and Re-sell foreclosed homes

Foreclosures have a devastating effect on homeowners and their communities. When a homeowner loses his or her home to foreclosure, so often their equity is also lost. Depressed home values and the blight caused by vacant housing can destabilize communities as they turn from homeownership to investment or rental communities. Governments lose tax revenues and often must bear the cost of foreclosure sales.

The proposed $10 billion fund administered by states to acquire, rehabilitate, and sell foreclosed homes will provide a critical tool to curtail the negative impacts foreclosures have on our neighborhoods and communities. As proposed, the income targeting directs assistance to those most in need while supporting mixed income communities. I support the provisions that allow these funds to be used to make homes affordable for low and moderate income families. Soft seconds – deferred loans that maintain property values while making the home affordable – as well as carrying costs, allow for the financial success of this strategy.

In addition, it is important for states to be able to use the funds for short-term bridge financing. In our experience, many homeowners wait until foreclosure is imminent before seeking assistance. Short term bridge loans that cover the mortgage between time of reset and refinancing will allow many owners to remain in their homes. Despite our best efforts, some homeowners will lose their homes in this crisis, and I would support the ability to use these funds for short term rental assistance and for security deposits. As homeowners lose their homes, it is critical that government help them avoid homelessness and make the transition to renting and redirect funds for rental payments.

I would also recommend eliminating the provision that limits this program to houses with purchase prices that do not exceed 90 of the average area purchase price. Instead, I recommend flexibility to allow states to finance homes affordable within program income limits. As it stands, it will be extremely difficult to establish average area purchase price because 1) it will be hard to determine what constitutes an area, and 2) home prices are changing on a monthly basis. In addition, by limiting the program only to homes with prices below the market, the program may result in depressing the market even further. Also, where foreclosures have hit a particular neighborhood disproportionately, limiting the purchase and rehab to a certain number of homes will not produce the impact on a neighborhood that we are seeking through this program.

Expansion of FHA Capacity

In our experience in Maryland, getting mortgage servicers to participate in efforts to deal with the foreclosure crisis has been one of the most difficult aspects of this problem. They "talk the talk" but do not "walk the walk."

I support the expansion of FHA loan guarantees to help deal with the subprime and foreclosure crisis, and believe the following modifications would make the provisions even more effective to get lenders and, in some cases, borrowers to participate in the program:

FHA Guarantee Amount

The FHA legislation proposes that homes insured under the proposal should not exceed more than 90 percent of current value. In addition, it requires a five percent premium for potential additional losses. This represents a 15% reduction from the current value of a property (10% below value plus 5 percent premium) for the newly insured FHA amount. Given that home prices are declining, this provision may place a damper on the willingness of servicers to participate with FHA in this program, as they may feel its losses would be unacceptably high.

For example, if a home loan was originally made for $120,000 and the home is now worth $100,000, the current proposal calls for FHA to insure 90% of the current value, or $90,000. In addition, the legislation requires the lender to pay an additional 5%, or $5,000, for an insurance premium to FHA. This means the lender would effectively receive $85,000 from FHA for the mortgage, an effective loss to the lender of almost 30% from the original $120,000 loan amount. The lender may recover a higher ratio of funds if he allows the property to go into foreclosure.

I believe a better approach would be to allow properties to be refinanced at the current FHA loan to value ratio of 97%. In that case, with an original mortgage loan amount of $120,000, and a current value of $100,000, an FHA guarantee of 97% would put the difference between the original loan amount and the new guarantee at about 19%, a more acceptable loss ratio to lenders.

Equity Distribution

As structured, we believe the FHA proposal would provide too much equity to FHA when costs of rehabilitation are taken into account. Under this proposal, FHA would recover a percentage of equity, based on how long the owner owned the property, including improvements made by homeowners. It would be fairer to develop an equity sharing schedule based on an adjusted basis of the federal government's investment and the owner's investment. This will cover the need for both FHA and the government to prevent unfair profit taking, while not penalizing owners who have made improvements to their property with private resources.

Underwriting Standards

Under the proposed legislation, if there are higher than acceptable debt ratios (more than 40% but less than 50%), the proposal requires banks to hold loans for six months before FHA purchases the mortgage. We understand FHA's reluctance to take on these loans. However, it would be easier and fairer for FHA to establish regulations on mortgages it will or will not accept. This takes the guesswork out of the process for lenders, FHA and borrowers who will not be once again put into loans they cannot afford.

Timing

The legislation as proposed restricts the program only to mortgages originated between January 1, 2005 and July 1, 2007. The subprime market began to expand greatly in 2001, and many homes that have fallen into or are at risk of falling into foreclosure were financed before January 1, 2005. I would recommend moving the start date for originations back to January 1, 2003, to capture certain types of loans, such as 35 year loans where the first five years where interest only. In addition, the legislation should make clear that FHA will purchase loans that have already been refinanced by Housing Finance Agencies in response to the foreclosure and subprime crisis.

Other issues

While the FHA Housing Stabilization and Homeownership Protection Act would make considerable progress toward address the foreclosure crisis, I would like to bring to your attention two additional areas that should be considered in order to make the response to the foreclosure crisis comprehensive and most effective:

The Need for Permanent Financing

A $10 billion expansion of the Mortgage Revenue Bond Program (MRB) would create a source of permanent financing to assist homeowners with subprime, ARMs, and other exotic mortgages, such as 2/28 or 3/27 loans, to refinance out of those loans. States have successfully used the MRB program for years to help first time homebuyers. But due to the program's success, states have reached federally mandated volume caps. We must expand resources to allow the program to assist current owners in need of refinancing. Authorizing language in this legislation would make such loans possible.

The Need for Short and Long Term Resources for Renters

The influx of former homeowners into the rental market will put considerable pressure on the tight rental housing market, driving rents up beyond affordable levels for many families. An increase in the cap on Federal Low-Income Housing Tax Credits will allow more affordable rental housing for low-income households, which will be particularly hard hit as the rental market becomes increasingly competitive.

Non-Pre-emption

Maryland, along with many other states, has responded aggressively to this crisis by enacting legislation and strengthening regulatory oversight. We ask that any federal legislation adopted does not pre-empt states from doing more to protect homeowners.

Conclusion

Homeownership is the cornerstone of the American dream – a pathway into the middle class for so many who dream of building better lives for themselves, and for their families. It is, in a very real sense, the soil from which communities grow and it instills in residents an increasing stake in the common good and collective prosperity.

To lose even one home is a tragedy; to lose thousands is a threat to the growth and vitality of the American middle class.

We have a responsibility to act, and to act quickly.

I would like to thank Chairman Frank, Ranking Member Bachus, and the distinguished Members of the Committee for giving me this opportunity.

WASHINGTON BUREAU · NATIONAL ASSOCIATION FOR THE AOVANCEMENT OF COLORED PEOPLE
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STATEMENT OF MR. HILARY O. SHELTON

DIRECTOR

NAACP WASHINGTON BUREAU

ON

BEFORE THE HOUSE COMMITTEE ON FINANCIAL SERVICES

ON ECONOMIC, MORTGAGE, AND HOUING RESCUE LEGISLATION

April 10, 2008

Good morning. My name is Hilary Shelton and I am the Director of the Washington Bureau of the NAACP, our Nation's oldest, largest and most widely-recognized grassroots civil rights organization in the United States. The Washington Bureau is the legislative and public policy arm of the NAACP; we currently have more than 2,200 membership units in every state across the country.

I am here today to express our strong support for the draft legislation spearheaded by Chairman Frank which would enable the federal government to help troubled homeowners save their homes. This proposal is especially important to the NAACP, since a disproportionate number of the subprime loans which at the heart of the massive wave of foreclosures that our Nation is currently facing were made to African Americans and other racial and ethnic minorities.

The NAACP firmly believes there is much the federal government can and should do to address the current foreclosure crisis.

First, we feel it is incumbent upon the federal government to help families facing foreclosure to be able to stay in their homes, which I believe is the intent of this legislation. Homeownership makes neighborhoods safer, encourages community investment, provides financial security and improves the lives of families by helping to provide a safe, secure and stable home.

By enabling the federal government to insure and guarantee refinanced, sustainable and affordable mortgages, Congress and the Administration will be assuring homeowners, as well as the American public, that families are as important to lawmakers as large corporations and as financial institutions.

In addition to helping consumers, the NAACP also considers the proposal before us a win for lenders: although they must, under Chairman Franks plan, take a diminished return on the properties, they are no longer responsible for the foreclosed properties and are assured of getting some return on their investment.

Finally, such an action as proposed by Chairman Frank would also help the national economy, which is currently suffering tremendously largely because of the foreclosure crisis.

In addition to supporting this measure, the NAACP also supports other measures, such as H.R. 3609, the *Emergency Home Ownership and Mortgage Equity Protection Act of 2007*, as an effective means of allowing people with problematic mortgages to stay in their homes.

As the Chairman knows, the current version of H.R. 3609, which enjoys bipartisan support, would save over half a million homes from foreclosure by allowing bankruptcy judges to modify loans to affordable and sustainable levels.

A second step which the NAACP believes it is imperative for Congress to take if it is serious about addressing the current economic crisis faced by our Nation is to pass substantive legislation to put an end, once and for all, to predatory lending.

As the Chairman and members of this committee know all to well, the NAACP has been intimately involved in legislation to end predatory lending. Specifically, we would like to see legislation that establishes higher standards for loan originators and provides stronger penalties and remedies for lenders who break the law. We also need to ensure that any final federal product is the minimum, and that states be allowed to continue to be more aggressive in eliminating predatory lending.

While like many we were disappointed with the final version of the bill that passed the House, and are working hard to see stronger legislation pass the Senate, we do very much appreciate the initiative and the drive of the chairman to eliminate predatory lending.

For decades, predatory lenders have targeted African Americans and other racial and ethnic minorities through steering and other immoral practices with dubious products that contain prepayment penalties, the so-called "exploding ARMS" and the list goes on and on. In fact, according to the Center for Responsible Lending, more than 52% of home-purchase loans made to African Americans in 2006 were subprime.

Let's consider the facts for a moment:

- Among subprime loans made in 2005 and sold to investors, 55% "went to people with credit scores high enough to often qualify for conventional loans with far better terms." By the end of 2006, the share of over-priced loans rose to 61%.[i]

- As a conservative estimate, 1 in 10 African American homeowners who received subprime loans in recent years will lose their home to foreclosure.[ii]

- The subprime market has not increased homeownership for communities of color; in fact, subprime loans made between 1998 and 2006 produced a net loss in homeownership.[iii]

- In 2004, African American homeownership peaked nationally at 49.1 percent, but by the end of 2006, it dropped 1.2 percentage points to 47.9 percent.[iv]

- The subprime mortgage crisis will drain $213 billion in African American wealth, the greatest loss of wealth in modern U.S. history.[v]

The impact this sudden increase in mortgages, and the accompanying huge rise in foreclosures, will have on whole neighborhoods and communities predominantly populated by African Americans, Latinos and other racial and ethnic minority Americans will be nothing short of devastating.

As so clearly demonstrated in a report issued last year by the Center for Responsible Lending estimated that 1 out of every 5 mortgages that originated during the last two years will end in foreclosure.

This means that the effect of years of predatory lenders targeting African Americans and other racial and ethnic minorities will now begin to hurt not only the borrowers, but also their neighbors and their communities as homes are foreclosed upon in record numbers, and those numbers will be concentrated in African American communities and other communities with high concentrations of racial and ethnic minorities.

The impact on whole communities, communities which can very often least afford the instability of massive foreclosures, will be nothing short of devastating.

Foreclosures ruin lives, families and communities, and causes economic devastation throughout.

Given that homeownership is one of the most reliable ways for economically disadvantaged populations to close the wealth gap, one direct result of the unfair and immoral discriminatory predatory lending that has been going on in our communities for years is that it is harder for African Americans and other racial and ethnic minorities to build wealth or pass any material possessions on to their heirs.

For African Americans the importance of homeownership is especially true: Half of all African American households that owned homes in 2002 held more than 88% of their total net worth in home equity.

Furthermore, African Americans still lag significantly behind their Caucasian counterparts in their average net worth. Most African American families have a net worth of about $6,000: this can be compared to the average white family, whose net worth is just over $88,000.

Most Americans dream of buying a home and using the equity in that home as their nest egg. Many homeowners intend to use the equity in their home in the event of a major medical emergency, or when it comes time to put their children through college. Some just hope to have something to pass on to their children when they die. It's the American dream.

For many, homeownership means the difference between spending their golden years in either poverty or comfort, yet a predatory mortgage or refinancing can ruin all these dreams and more.

And for communities, the foreclosures that will result because of targeted predatory lending can mean devastation. One study estimated that for every home that is foreclosed on in a given block, the other homeowners on that block lose 1.14% of their property's value.

Except for the very wealthiest Americans, which as we know is a group that does not contain many African Americans, home ownership and preservation is key to wealth building and to being able to pass something along to future generations.

Predatory lending, and the foreclosures that it will bring with it, are devastating, and it is incumbent upon Congress to do what you can to help these families in need.

So I will close by thanking the Chairman and the Committee for your efforts and to reiterate our support for the legislation before us. On behalf of the NAACP, we look forward to working with you on this proposal and others that will effectively address the foreclosure crisis facing our Nation. Like you, we want to help America's families stay in their homes.

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i Rick Brooks and Ruth Simon, "Subprime Debacle Traps Even Very Credit-Worthy As Housing Boomed, Industry Pushed Loans To a Broader Market," *The Wall Street Journal* at A1 (Dec. 3, 2007).

ii Ellen Schloemer et. al., "Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners," Center for Responsible Lending (December 2006).

iii "Subprime Lending: A Net Drain on Homeownership," Center for Responsible Lending Issue Paper No. 14 (March 27, 2007), available at http://www.responsiblelending.org/pdfs/Net-Drain-in-Home-Ownership.pdf.

iv Homeownership Rates by Race and Ethnicity of Householder: 1994 to 2006, U.S. Census Bureau, http://www.census.gov/hhes/www/housing/hvs/annual06/ann06t20.html

v United for a Fair Economy, "Foreclosed: State of the Dream 2008," available at http://www.faireconomy.org/issues/racial_wealth_divide/foreclosed_state_of_the_dream_2008_0.

CITY OF RIVERSIDE
Office of the Mayor
Diverse • Inclusive • Committed

March 10, 2008

The Honorable Barney Frank
U.S. House of Representatives
2252 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Frank:

As a Mayor representing a city affected by the current mortgage foreclosure crisis, I am writing to urge swift legislative intervention to strengthen and stabilize the nation's housing market.

As you know, the nation's housing mortgage finance system has undergone significant changes in recent years that helped to foster record rates of homeownership. Unfortunately, federal regulations to protect the interests of homeowners in the mortgage process failed to keep pace with the market. Across the country millions of families, who can no longer afford their mortgages, will lose their homes and their hard earned equity to foreclosure unless they are able to refinance their mortgages with more affordable options.

In addition to the impact on families, the current mortgage crisis is also having unexpected consequences on local governments. Foreclosed houses now sit vacant in our neighborhoods and are contributing to the blight long-associated with abandoned properties. Local governments must now bear at least the short term costs of maintaining these vacant properties. Additionally, since vacant properties all too often become havens for crime, local governments must also now bear the costs associated with an increased police presence in those areas where foreclosed vacant properties are concentrated. Cities are also forecasting decreased property tax revenues due to declining assessed valuations. These and other economic and social costs associated with foreclosure are beginning to undo decades of public and private investment in community and economic development activities in cities and towns across the country.

The City of Riverside, and more particularly the county of Riverside, has been hard hit by this crisis. The county of Riverside which has experienced extraordinary growth in recent years is now a region that is facing extreme hardship as the entire homeownership and building market fails. In the City alone, from August 2007 through January 2008 there have been 875 foreclosed units. Other neighboring cities have fared much worse, and the impact on the region is immense.

The legislative proposals that are pending would go a long way towards strengthening and stabilizing the housing finance system for families and cities. I urge you to make consideration of this legislation a top priority for this Congress.

Sincerely,

Ronald O. Loveridge

Ronald O. Loveridge
Mayor

National Foreclosure Prevention and Neighborhood Stabilization Task Force

April 7, 2008

Dear Senators and Representatives:

As members of the National Foreclosure Prevention and Neighborhood Stabilization Task Force, our organizations encourage immediate action to assist homeowners at risk of foreclosure, renters at risk of eviction, neighborhoods across this country that are already flooded with foreclosures and those communities that may soon be hit hard by the coming tide.

The bipartisan Senate package unveiled on April 2 contains many helpful elements that address specific aspects of this crisis, but it noticeably omits any bold plan for restructuring existing mortgages to help families keep their homes. We hope to continue to improve the bill as it moves through Congress.

We applaud the inclusion of a neighborhood stabilization fund to assist communities devastated by foreclosures. Foreclosed homes stand vacant, create crime and arson hazards, and drag down prices area-wide. Everyone loses—the lender, the homeowner, the renter and the neighborhood. Intervention will keep families in these neighborhoods who might otherwise leave as they see the community sink downward. The supplemental Community Development Block Grant funds will provide needed capital to purchase foreclosed homes, at a discount, and rehabilitate or redevelop the homes for new homeowners or renters to stabilize neighborhoods and stem the significant losses in house values of neighboring homes. However, the funding level of $10 billion provided in the bills proposed by Congressman Frank and Congresswoman Waters is more in line with the actual level of need in high foreclosure communities across the country.

In addition to the current package, however, we strongly recommended adding a mortgage restructuring plan similar to the one presented in the bills prepared by Senator Dodd and Congressman Frank. A bulk restructuring plan would be the most effective solution to the nation's economic crisis. It would also help to stabilize families and communities. Case-by-case restructuring is simply too slow, expensive, and cumbersome to solve the crisis. The principal balances on existing mortgages must be written-down to make monthly payments more affordable to homeowners. Where affordability gaps still remain, silent-second mortgages can be issued to cover any gaps between required payments on the restructured first mortgages and what families can afford.

These mortgages should then be insured by the government so that they can then be sold on the secondary market.

The Nation needs bold action to avert an economic and social crisis. We urge you adopt solutions commensurate with the magnitude of the challenge and act quickly to offer relief to families and communities in crisis.

Sincerely,

Members of the National Foreclosure Prevention
and Neighborhood Stabilization Task Force

CDFI Coalition
Enterprise Community Partners
Housing Assistance Council
Housing Partnership Network
Local Initiatives Support Corporation
National Alliance of Community Economic Development Associations
National CAPACD
National Community Land Trust Network
National Housing Institute
National Housing Conference
National NeighborWorks Association
National Vacant Properties Campaign
Smart Growth America

NATIONAL GOVERNORS ASSOCIATION
1908 · 2008

April 3, 2008

The Honorable Chris Dodd
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Barney Frank
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Dodd, Senator Shelby, Chairman Frank, and Representative Bachus:

As Congress and the Administration consider legislative and regulatory responses to the subprime mortgage crisis, governors urge lawmakers to follow several principles applicable not only to the subprime crisis, but also to the underlying housing market turmoil and their impacts on the overall economy.

While the threat of housing foreclosure has affected states to varying degrees, those most affected have executed response plans with a variety of policy tools to help mortgage holders in distress. States have been first responders to the subprime foreclosure crisis and approximately 20 percent now operate some type of emergency mortgage assistance or refinancing program tailored to at-risk homeowners. At present, at least 25 states also have proposed or enacted laws that would protect consumers from deceptive foreclosure rescue schemes. Ultimately, no state is immune from the cascade of negative impacts from this nationwide challenge, and the consequences to citizens, communities and state governments are daunting, which justifies swift consideration of federal action.

First, governors support a voluntary mortgage refinancing program backed by Federal Housing Administration (FHA) insurance that will prevent further foreclosures. Any legislative and regulatory efforts should target homeowners with a demonstrated ability to repay a refinanced mortgage on terms that avoid foreclosure. Relief efforts should exclude speculators and prevent borrowers from receiving windfalls on future sales, in part to reassure the 93 percent of homeowners who are current in their monthly mortgage payments and not at imminent risk of default. Governors also support statutory and regulatory changes that increase the flexibility and effectiveness of mortgage revenue bond authority to target resources for purchasing such properties and to divert credit-worthy borrowers from risky loan products.

Second, federal grant and loan funds should be made available to help mitigate the subprime foreclosure challenge. We believe sufficient and flexible resources for states should be approved to develop or expand locally tailored strategies to transform foreclosed homes into a new supply of affordable quality housing stock for owner-occupied purchase and rent. While governors acknowledge that any federal action should avoid unintended consequences that could make current conditions worse in the long-term, a one-time federal funding commitment to support the acquisition and rehabilitation of foreclosed properties is vital to help stabilize home values and protect neighborhoods in trouble now. All funds made available should flow directly through states. States should have the flexibility to contract with local government and nonprofit partners to implement these strategies.

Third, any federal action should avoid changes that shift additional costs to states, preempt state authority to protect the public, or impose new unfunded mandates because such actions undermine state efforts to maintain services, balance budgets, and speed economic recovery. While solutions should aim to eliminate unfair and deceptive practices and support reasonable relief to prevent a repeat of the subprime foreclosure crisis, they should not insulate at-risk homeowners, lenders, servicers, and other interested parties from all market consequences. Federal action, moreover, should provide a nationwide standard for prohibiting predatory practices that establishes a floor and does not preempt strong state anti-predatory lending laws.

Governors are pleased that Congress and the Administration are designing and executing solutions to restore public confidence in the housing and credit markets; however, federal action should be sensitive to each state's ability to bring a unique blend of resources and approaches to these common challenges. We look forward to working with the federal government to stabilize neighborhoods, protect the equity of homeowners, and help set the economy onto a path of sustained growth and strength.

Sincerely,

Governor Jennifer M. Granholm
Chair
Economic Development and Commerce Committee

Governor M. Michael Rounds
Vice Chair
Economic Development and Commerce Committee

C: President George W. Bush
Secretary Alphonso R. Jackson
Secretary Henry M. Paulson Jr.
Senator Harry Reid
Senator Mitch McConnell
Speaker Nancy Pelosi
Representative John Boehner

"To strengthen and promote cities as centers of opportunity, leadership, and governance.

National League of Cities

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March 7, 2008

The Honorable Barney Frank
Chairman, House Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Frank:

On behalf of the National League of Cities (NLC), we the undersigned local elected officials are writing to urge swift legislative intervention to strengthen and stabilize the nation's housing market.

As you know, the nation's housing mortgage finance system has undergone significant changes in recent years that helped to foster record rates of homeownership. Unfortunately, federal regulations to protect the interests of homeowners in the mortgage process failed to keep pace with the market. According to RealtyTrac, total U.S. foreclosure activity rose 75 percent in 2007 and will likely grow as adjustable rate mortgages continue to reset. At this rate, millions of families, who can no longer afford their mortgages, will lose their homes and their hard earned equity to foreclosure unless they are able to refinance their mortgages with more affordable options.

In addition to the impact on families, the current mortgage crisis is also having unexpected consequences on local governments. Foreclosed houses now sit vacant in our neighborhoods and are contributing to the blight long-associated with abandoned properties. Local governments must now bear at least the short term costs of maintaining these vacant properties until they can track down the owner, which can be difficult since mortgages are resold among lenders and investors. Additionally, since vacant properties all too often become havens for crime, local governments must also now bear the costs associated with an increased police presence in those areas where foreclosed vacant properties are concentrated. At the same time local governments are incurring unforeseen costs to maintain houses now vacant due to foreclosure, cities are forecasting decreased property tax revenues due to declining assessed valuations. These and other economic and social costs associated with foreclosure are beginning to undo decades of public and private investment in community and economic development activities in cities and towns across the country.

I recognize that Congress faces a difficult legislative schedule this year. However, legislative proposals are pending that would go along way towards strengthening and stabilizing the housing finance system for families and cities. I urge you to make consideration of this legislation a top priority for this Congress.

Sincerely,

Joe Davis, Sr.
Alderman, Milwaukee, WI
Chair, NLC Community and Economic Development Committee

The Honorable Barney Frank
March 7, 2007
Page 2

The Honorable Jon Harrison
Mayor
Redlands, California

The Honorable Carlo DeMaria, Jr.
Mayor
Everett, Massachusetts

The Honorable Wayne Seybold
Mayor
Marion, Indiana

The Honorable Scott J. Brook
Mayor
Coral Springs, Florida

The Honorable Carl Brewer
Mayor
Wichita, Kansas

The Honorable David Cartmell
Mayor
Maysville, Kentucky

The Honorable Jim Fairchild
Mayor
Dallas, Oregon

The Honorable Robert Austin
Mayor
Estacada, Oregon

The Honorable David Ragan
Mayor
Richland Hills, Texas

John Marks
Mayor
Tallahassee, Florida

The Honorable Donald E. Casar
Vice-President of Council
Majority Leader
Canton, Ohio

The Honorable Jean T. Martin
Councilmember and President Pro Tempore
Selma, Alabama

The Honorable James Hubbard
Vice Mayor and Alderman
Springfield, Tennessee

The Honorable Audwin Samuel
Mayor Pro Tempore
Beaumont, Texas

The Honorable Ben Reed
President of City Council
Gadsden, Alabama

The Honorable Charles C. Allen
Vice Mayor and Councilmember
Newport News, Virginia

The Honorable Bo Perkinson
Vice Mayor
Athens, Tennessee

Joe Davis, Sr.
Alderman
Milwaukee, Wisconsin

Ed Reyes
Councilmember
Los Angeles, California

The Honorable Doug Linkhart
Councilmember
City of Denver, Colorado

The Honorable Carolyn R. Davis
Councilmember
City of Dallas, Texas

The Honorable Doug Tuttle
Councilmember
Newark, Delaware

The Honorable Charles Allen
Councilmember,
Thomasville, Alabama

The Honorable Clara Shepherd
Commissioner
Muskegon, Michigan

The Honorable Ron Garcia
Councilmember
Brea, California

The Honorable Neal Andrews
Councilmember
Ventura, California

The Honorable Keith McGlashan
Councilmember
Shoreline, Washington

The Honorable Tennell Atkins
Councilmember
Dallas, Texas

The Honorable Maryann M. Heuston
Alderman
Somerville, Massachusetts

The Honorable Steve Salazar
Councilmember
Dallas, Texas

The Honorable Dennis P. Zine
Councilmember
Los Angeles, California

The Honorable Ricki Y. Barlow
Councilmember
Las Vegas, Nevada

The Honorable Steve Corker
Councilmember
Spokane, Washington

The Honorable Shana Ellis
Councilmember
Tempe, Arizona

The Honorable Trinity Donovan
Councilmember
Chandler, Arizona

The Honorable Pauline Medrano
Councilmember
Dallas, Texas

The Honorable Mark Olson
Councilmember
Everett, Washington

The Honorable Betty Drake
Councilmember
Scottsdale, Arizona

The Honorable Scott Johnson
Councilmember
Plano, Texas

The Honorable Bill McLendon
Councilmember
Hurst, Texas

The Honorable Donna Owens
Councilmember
Overland Park, Kansas

The Honorable Jeff Comerchero
Councilmember
Temecula, California

The Honorable Nancy Hart
Councilmember
Riverside, California

The Honorable Lana Wolff
Councilmember
Arlington, Texas

The Honorable Craig Thurmond
Councilmember
Broken Arrow, Oklahoma

The Honorable Marsha Tunnell
Councilmember
Coppell, Texas

The Honorable Thomas D. Vlassis
Councilmember
Des Moines, Iowa

The Honorable Alveno Ross
Councilmember
Macon, Georgia

The Honorable Johnnie A. Warren
Council President
Oakwood Village, Ohio

The Honorable Greg Morehead
Alderman
New Haven, Connecticut

The Honorable Mary Alice Cisneros
Councilmember
San Antonio, Texas

The Honorable Jacquelyn Johnson
Councilmember
East Orange, New Jersey

The Honorable Robert Raynor, Jr.
Alderman
New Bern, North Carolina

The Honorable Gilbert Lopez
Councilmember
Coolidge, Arizona

The Honorable Charles A. Blango
Alderman
New Haven, Connecticut

The Honorable Adrienne Foster
Councilmember
Roeland Park, Kansas

The Honorable Tim Clark
Councilmember
Kent, Washington

The Honorable Terance L. Irvin
Councilmember
Gonzales, Louisiana

The Honorable Michael Park
Councilmember
Federal Way, Washington

The Honorable Joe Rodriguez
Alderman
New Haven, Connecticut

The Honorable Jennifer Wichmann
Administrative Services Manager
Arlington, Texas

The Honorable Patricia J. Britt
City Clerk
Cleveland, Ohio

The Honorable Donovan Blackburn
City Manager
Pikeville, Kentucky

NMHC National Multi Housing Council®

NAA National Apartment Association

Statement for the Record
On Behalf of the
National Multi Housing Council
and
National Apartment Association

"Using FHA for Housing Stabilization and Homeownership Retention"

House Financial Services Committee

April 10, 2008

NMHC National Multi Housing Council® | NAA National Apartment Association

Lessons Learned from the Foreclosure Crisis

The current situation in the for-sale housing market is an extremely unfortunate turn of events that is made even more unfortunate by the fact that it was completely foreseeable and preventable. For decades the government has pursued a "homeownership at any cost" housing policy. Like other participants in the housing sector, it mistakenly assumed that prices would always go up. People were enticed into houses they could not afford, and the rarely spoken truth that there is such a thing as too much homeownership was forgotten.

Now we are seeing the consequences of that misguided policy. People are losing their homes, local communities are struggling with blight and crime, and our national economy is at great risk as we face the danger of a full-blown credit crisis.

For years, we have been warning policymakers that pushing homeownership so aggressively could be disastrous not only for the hardworking Americans lured into unsustainable homeownership, but also for our local communities and our national economy. We were not alone in doing this. Here are just a few of the warnings that were issued:

- March 2004: NMHC President **Doug Bibby** testified before the House Committee on Financial Services Subcommittee on Housing and Community Opportunity that "low- and no-downpayment loans in particular are putting households at higher risk for default and may do more harm than good to local communities."

- December 2004: **William Apgar Jr.**, Ph.D., former Assistant Secretary of Housing at the Department of Housing and Urban Development (HUD) and long-time homeownership advocate, published a paper for Harvard University saying too many low-wealth and low-income families are being "pushed into homeownership" when it is not a good choice for them. Dr. Apgar recommended that instead of excessively promoting homeownership, America should focus on ways to use low-cost rental housing as a "pathway to social and economic opportunity."

- January 2005: The **Consumer Federation of America,** the **National Urban League** and 10 other organizations hold a briefing for more than 100 congressional staffers and reporters to explain that too many low-income families are being hurt by the rhetoric from HUD and elsewhere that they must become homeowners.

- January 2005: The **Center for Economic and Policy Research** issues a paper concluding that government homeownership incentives like subsidized downpayments primarily benefit real estate agents, mortgage brokers and other intermediaries—not necessarily the families the incentives are designed to help. "Even with federal subsidies," the CEPR says, "many low-income families would find themselves better off if they remain as renters instead of becoming homeowners."

- May 2005: **Dr. William Apgar Jr.** publishes a research report concluding that the nationwide municipal cost of foreclosures could easily top the $1 billion mark.

- June 2005: **NMHC/NAA** began running ads in *Roll Call* newspaper warning policymakers that homeownership is not a panacea.

- March 2007: **David Frum**, former speechwriter for President Bush, says "the fact that almost 70 percent of American adults now own their own home is hailed as a great social achievement. But the achievement came at a price...Loose (lending) standards now threaten the whole American financial system, but they also do harm to low-income borrowers."

Learning a Lesson: New Solutions

The mortgage market meltdown represents a failure of oversight and regulation. But it also reflects a colossal failure by financial instrument investors to conduct proper due diligence.

We certainly understand the great concern to help people remain in their homes -- even though many are now trapped in mortgages that are under water with no short-term prospect for a quick remedy to this crisis. But as Congress considers the various "solutions" being proposed, we urge lawmakers to act deliberately and cautiously in order to avoid unintended consequences. The primary objective at this point should be to avoid causing a deeper credit crisis.

Lawmakers should also abandon their unqualified support of all homeownership incentives, including the home buyer tax credits included in the Housing Assistance Tax Act of 2008 that is being debated by the House Ways and Means Committee and the Senate (S. 3221) and proposals to eliminate the downpayment requirement for FHA-insured mortgages.

For many years, lawmakers have relied on homeownership incentives to address our nation's housing needs. But that strategy will not work this time; in fact, it may make things worse. A good example of a well-intentioned, but flawed policy proposal is the $7,000 tax credit for taxpayers who buy a foreclosed house that is included in the Senate's Foreclosure Prevention Act of 2008 (S. 3221).

This home buyer tax credit will not help people stay in their houses, and it will not fix the credit crisis. In fact, it would likely increase foreclosures by encouraging lenders to foreclose instead of working out mortgages. It may also accelerate housing price declines by forcing owners who are current on their mortgages, but who want to sell, to lower their price by $7,000 to compete with foreclosed houses down the street. The only issue a home buyer tax credit addresses is the oversupply of single-family houses, which is something best left to the marketplace—not taxpayers—to correct.

Another example of a flawed proposal is the first-time home buyer tax credit included in the Housing Assistance Tax Act of 2008 that is being debated by the House Ways and Means Committee. Many economists believe that house prices will continue to fall this year, perhaps up to 20 percent. Why then, would lawmakers encourage, and even subsidize, the purchase of assets that are likely to fall in value?

We are also concerned about proposals to significantly reduce or eliminate FHA downpayment requirements. Even though the marketplace has made it clear that zero-downpayment mortgages are extremely risky, pending FHA reform legislation (H.R. 1852, S. 2338) seeks to lower or eliminate the downpayment requirement for these federally insured mortgages.

Offering an insight into the possible losses to the Federal Treasury if a federally insured zero-downpayment program is enacted, private mortgage insurance (PMI) provider MGIC in late February reported $1.47 billion in fourth-quarter losses. Another large PMI firm, Radian, disclosed $618 million in losses for the quarter. Faced with mounting losses due to the foreclosure crisis, PMI Group, Inc. announced that it will no longer insure loans with downpayments of less than three percent.

We are encouraged by the fact that the Senate's foreclosure measure (S. 3221) acknowledges the risky nature of zero-down mortgages and actually proposes to increase the FHA downpayment to 3.5 percent.

Finally, we oppose the property tax deduction proposed for owners who do not itemize their taxes contained in both S. 3221 and the Housing Assistance Tax Act of 2008. These proposals generally do not help owners at risk of losing their houses, and, more importantly, they further unbalance our housing policy.

According to our research, in 2006, the federal government spent approximately $216 billion on housing programs and tax expenditures; 73 percent of that ($157 billion) went to homeownership and just 27 percent ($59 billion) was spent on rental housing. If federal subsidies were adjusted to reflect the current share of households that rent versus own, rental housing subsidies would have to increase by roughly $11 billion. If they were adjusted to target households with the greatest housing needs, they would have to be increased substantially more than that.

If there is a silver lining in this situation, it is the opportunity we now have to learn from our mistakes and rethink our housing policy. That means finally acknowledging that homeownership isn't the right housing choice for all households at all points in their lives. Housing our diverse nation well means having a vibrant rental market along with a functioning ownership market. To do that, we need a more balanced housing policy that explicitly values rental housing and takes steps to ensure there is an adequate supply of it.

To that end, we support provisions in S. 3221 that provide an additional $10 billion in mortgage revenue bonds for single-family refinancing and the production of rental housing. We also support the provision blocking the U.S. Department of Housing and Urban Development (HUD) from increasing the multifamily mortgage insurance premium (MIP) until October 1, 2009. For the past two years, HUD has tried unsuccessfully to increase the premium without justifying the change by providing documented actual cost increases.

We are also encouraged by the various modifications to the Low-Income Housing Tax Credit (LIHTC) program that are included in the Housing Assistance Tax Act of 2008. The LIHTC proposals would simplify the LIHTC program to improve its effectiveness and make it easier for developers to use it; allow Low-Income Housing Tax Credits to offset the Alternative Minimum Tax (AMT); exempt the interest on tax-exempt housing bonds from the AMT; and increase the cap on mortgage revenue and other housing bonds by $10 billion in 2008. NMHC/NAA have sought many of these changes to address the credit crisis in the LIHTC program caused by spillover from the single-family mortgage meltdown.

To the extent that lawmakers directly address the foreclosure crisis, we urge them to focus their efforts on restructuring mortgages, an action that actually can help families stay in their houses. We believe that the proposal advanced by Chairman Frank to write down the principal value of one million to two million delinquent mortgages and replace the existing mortgages with new FHA-insured loans is a step in the right direction.

A SMARTER HOUSING POLICY

We strongly encourage lawmakers to use the lessons learned from this tragic, but avoidable, crisis to conduct a thorough examination of our housing policy and craft a new housing policy that satisfies the following principles:

- It ensures that everyone has access to decent and affordable housing, regardless of whether they rent or own.
- It respects the rights of individuals to choose the housing that best meets their financial and lifestyle needs without disadvantaging, financially or otherwise, those who choose apartment living.
- It promotes healthy and livable communities by encouraging responsible land use and promoting the production of all types of housing.
- It recognizes that all decent housing, including apartments, and all citizens, including renters, make positive economic, political and social contributions to their communities.
- It balances the expected benefits of regulations with their costs to minimize the impact on housing affordability.

* * *

NMHC and NAA operate a Joint Legislative Program and represent the nation's leading firms participating in the multifamily rental housing industry. NMHC/NAA's combined memberships are engaged in all aspects of the development and operation of apartment communities, including ownership, construction, finance and management. Together, the organizations operate a federal legislative program and provide a unified voice for the private apartment industry. Nearly one-third of Americans rent their housing, and over 14 percent of all U.S. households live in an apartment home. For more information, contact NMHC at 202/974-2300, e-mail the Council at info@nmhc.org, or visit NMHC's web site at www.nmhc.org.

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The New York Times
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The New York Times

April 8, 2008

In U.S., Metal Theft Plagues Troubled Neighborhoods

By CHRISTOPHER MAAG

CLEVELAND — Metal scrappers have attacked churches and ransacked homes in this Midwestern city, leaving entire neighborhoods uninhabitable.

Saint Theodosius Orthodox Cathedral here lost its insurance after a thief stole copper panels from the roof years ago. Three churches in Cleveland Heights have been stripped of copper gutters. And in the last few months, three churches in the North Collinwood neighborhood were stripped of copper downspouts.

"Our neighborhoods are being pillaged, not by Vikings or Goths, but by modern-day barbarians," said Mike Polensek, North Collinwood's City Council member. Even manhole covers and sewer drains are being stolen out of streets to be sold as scrap metal, Mr. Polensek said.

Houses, however, are the greatest targets of commodity scavengers in the United States. Neighborhoods depopulated by the rising tide of foreclosures make easy targets.

So many houses have been stripped of siding and copper pipes that neighborhoods must be abandoned and turned into green spaces, said Jim Rokakis, treasurer for Cuyahoga County, which includes Cleveland. "We have to pull out," he said. "There's nothing left."

It is common for home builders and remodelers here to erect signs on plywood that read "All PVC pipes, no copper," indicating a house has less expensive plastic piping.

In the last six months, the police in the city of Cleveland Heights have arrested two groups of scrappers who used government foreclosure lists to plot which houses to sack.

Scrap metal thefts began to soar 12 to 18 months ago. "There's a direct correlation between the price of commodities and the number of metal thefts," said Bruce Savage, spokesman for the Institute of Scrap Recycling Industries.

The institute received 174 reports from the police around the country regarding metal thefts from Jan. 1 to March 28 of this year, a sharp increase over the period in 2007, and the actual number of thefts is much higher, Mr. Savage said.

Copper pipes, among the most commonly stolen items, are selling for just over $3 a pound. The local police report bronze urns taken from gravestones and long sections of aluminum bleachers stolen from high school stadiums.

Catalytic converters in vehicles are also popular targets because they contain platinum, which this month sold for an average of $1,900 an ounce.

THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE DEPARTMENT
STATE HOUSE • BOSTON 02133
(617) 725-4000

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

April 3, 2008

The President
The White House
Washington, DC 20500

Honorable Nancy Pelosi
Speaker of the House
H-232, US Capitol
Washington, DC 20515

Honorable Harry M. Reid
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. President, Speaker Pelosi, and Majority Leader Reid:

As Governor of one of the many states dealing with the severe effects of the housing and credit crises, I ask that Congress and the Administration take bold action to enable us to rebuild communities and help families stay in their homes.

In Massachusetts in 2007, there were 7,563 homes foreclosed. As of March 2008, 3.2% of all mortgages are in foreclosure, up from 1.8% at this time last year. In January 2008, there were 799 foreclosure deeds filed in Massachusetts. That statistic represents a 128.3% increase over the number of foreclosure deeds filed in January 2007. Many of these foreclosures are multi-unit properties in our oldest, poorest cities. Foreclosed, vacant, and abandoned properties invite crime and vandalism and threaten longstanding public investments in neighborhoods. These properties are a blight on their neighborhoods and a blight on their communities.

As you know, Massachusetts is not alone among states in experiencing these problems. The subprime and related mortgage lending crises have created difficult economic dynamics and personal hardships across the Nation. Like most states, we have taken action, but our ability to respond is limited by strained budgets as the national economy worsens. This is a national crisis and it demands a national response.

I strongly endorse proposals being crafted in the House and the Senate, under the leadership of Chairman Barney Frank and Senator Christopher Dodd, to include sufficient and flexible resources for states to develop or expand locally-tailored strategies to transform foreclosed homes into new affordable family homes or rental housing. A one-time federal commitment of at least $10 billion to support the acquisition and rehabilitation of properties for sale or rent on affordable terms is vital for community stabilization. State and local governments will use these resources to support the purchase of abandoned homes, eliminate neighborhood blight, and help stabilize home values.

Here in Massachusetts, we have a strong network of nonprofits ready to work with us to implement these neighborhood stabilization strategies. We already have committed scarce state resources to this effort. But we will not fully succeed unless the federal government provides the level of resources being proposed by the House and the Senate. I ask for your support for the Congressional effort.

I hope you will also support efforts to expand the Federal Housing Administration's authority to insure refinancing of troubled mortgages. Federal credit enhancement is essential to restore confidence in mortgage assets during this highly volatile time. In crafting an FHA refinance mechanism, I urge the federal government to hold investors accountable for their decisions, precluding borrowers from receiving a windfall from the resale of property, and excluding speculators from participation. In addition, I urge Congress and the Administration to make sufficient federal funds available for

President Bush
Speaker Nancy Pelosi
Majority Leader Reid
April 3, 2008
Page Three

housing counselors to work with homeowners through the restructuring process. Federal action also should include narrowly tailored amendments to allow bankruptcy courts to modify certain non-traditional mortgages on owner-occupied primary residences. In addition, federal action should provide a nationwide standard for prohibiting predatory practices that does not preempt strong state anti-predatory lending laws.

Congress needs to move quickly to design solutions to restore confidence, liquidity and transparency to housing and credit markets, based on core principles that include voluntary participation, owner affordability, and needed safeguards against bailouts, windfalls or other "moral hazards." I look forward to working together on a bipartisan basis with key members of Congress and Administration officials to stabilize neighborhoods, protect the home equity of hard-working Americans, and move the economy in the right direction – towards strong, sustained economic growth.

Sincerely,

Deval Patrick

cc: Congressman Barney Frank
Ranking Member Spencer Bachus
Chairman Christopher Dodd
Ranking Member Richard Shelby
Minority Leader John Boehner
Minority Leader Mitch McConnell
Secretary Henry Paulson
Secretary Alphonso Jackson

P I M C O

840 Newport Center Drive
Newport Beach, CA 92660

April 9, 2008

The Honorable Senator Christopher J. Dodd
Chairman, United States Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Dodd:

At the epicenter of today's market turmoil is a domestic deflationary spiral in the American property market which has yet to find bottom. Housing, the most financially significant asset to the American household, is undergoing a disorderly decline. Should home prices follow their current path and sink lower still, the impact on the American economy will likely be severe.

Left unchecked, the current scenario includes the continuation of the mortgage market debacle, with millions of displaced homeowners, and unprecedented housing price declines leading to losses of consumer wealth, confidence and therefore spending. Ultimately this will lead to a weakening in corporate profits and hiring, already being reflected in first quarter results, with the specter of further employment declines ahead.

There are no perfect solutions to the country's current circumstances. We realize many find the idea of government support of home prices extraordinary and we share the view that only under the most ominous of horizons should fiscal interventions be encouraged. Given, however, the exceptional point at which we now find ourselves in this downward deflationary spiral, incremental steps relying on traditional policy tools are not enough. Disorderly markets now threaten Main Street with a housing recession which may yet prove capable of yielding to a housing depression. Adherence to orthodoxy is unlikely to prove sufficient in encouraging markets to clear. Indeed, the point of no return for "clearing" markets may already be behind us.

This is because home price declines of 20 percent are in fact much more of a shock to the American economy than the collapse of the Internet bubble and NASDAQ 5000, as the amount of homeowner leverage is so much greater. A 20 percent negative adjustment to home prices not only wipes out all ownership equity for millions of Americans, it turns their houses "upside down" – thus reducing the incentive and the ability for many to maintain their current property.

We believe policymakers must act quickly and with resolve, aiming their solution directly at the problem's heart: housing prices. Establishing a floor under property prices

PIMCO

840 Newport Center Drive
Newport Beach, CA 92660

is critical to helping the homeowner out of his current dire condition. Were the government to aid households judged deserving in making sustainable the amount of mortgage principal owed, it would restore some degree of equity to the American homeowner, thus reassuring them with newly returned affordability and reducing the incentive to leave the keys behind. It also would provide lenders with a higher market value on their mortgage asset than they could achieve through foreclosure and sale into a strained housing market with limited capacity.

Unable to see the current spiral's bottom, investors will lack the confidence needed to come back to the market. With Washington and the public balance sheet acting in support of housing prices; however, investors such as PIMCO with pools of capital ready to deploy will return swiftly, buoyed by a sense that a floor may, indeed, be near.

Undoubtedly there will be negative externalities. The current situation ought never to have been reached, as PIMCO has written at length. However, now that we are here, the government should act with speed and purpose to help housing to stabilize, homeowners to afford their property, and the market to regain its confidence.

Sincerely,

William H. Gross
Co-Chief Investment Officer
Managing Director

Mohamed A. El-Erian
Co-Chief Investment Officer
Managing Director

Statement by

United States Conference of Mayors

National Association of Counties

National Association of Local Housing Agencies

National Community Development Association

to the

House Committee on Financial Services

on the

"FHA Housing Stabilization & Homeownership Retention Act of 2008"

April 9, 2008

Mr. Chairman and Members of the Committee:

The United States Conference of Mayors, the National Association of Counties, the National Association of Local Housing Finance Agencies, and the National Community Development Association appreciate the opportunity to provide comments on the "FHA Housing Stabilization and Homeownership Retention Act of 2008." We hereby offer our *qualified support* for this legislation. This legislation is vitally needed to address the on-going mortgage foreclosure crisis in the United States. In particular, we strongly support an expanded role for the Federal Housing Administration (FHA) in helping qualified borrowers refinance their subprime loans that they cannot afford into an affordable, long-term fixed rate mortgage. We think this is an appropriate and critical role for FHA to play in addressing the crisis.

We particularly support limiting the FHA refinancing to owner-occupied, principal residences so as to exclude investors, speculators or owners of second homes. We also support the legislation's requirement that a borrower have a debt-to-income ratio of no less than 40% as of March 1, 2008 and certification from the borrower that they have not intentionally defaulted on the current mortgage.

While we are pleased to see that the legislation recognizes the need to provide federal assistance to allow states, local governments, and the non-profit and public sectors address the growing problem of foreclosures, we strongly urge a different approach to this problem. Rather than creating a new state-based program within the Treasury Department with its attendant bureaucracy, we instead urge you to modify the bill to use the Community Development Block Grant program (and its allocation of 70% to metropolitan cites and urban counties and 30% to the states) to deliver this assistance. This approach is generally embodied in the bipartisan amendment to H.R. 3221, the "Foreclosure Prevention Act of 2008" pending in the Senate. That legislation relies on the Community Development Block Grant, a program that Congress nearly always turns to in responding to a disaster, which surely this crisis is. Under the Senate legislation, an emergency appropriation of CDBG funding is authorized, to be allocated by a formula developed by the Secretary of HUD. HUD is directed to develop a formula that allocates funding to areas of greatest need based: on the number and percentage of home foreclosures in each state or unit of local government; the number and percentage of homes financed by a subprime mortgage related loan in each state and unit of local government; and, the number and percentage of homes in default or delinquency in each state or unit of general local government. Grantees are intimately familiar with CDBG, and the funds made available under the bill are for the very types of activities that they carry out on a regular basis.

We believe funding for foreclosure relief and mitigation should be in form of grants and not loans for ease of administration. We do support the eligible activities that are contained in Chairman Frank's legislation: to purchase or finance the purchase of foreclosed housing for resale to families with incomes up to 140% of median income; to purchase or finance the purchase of foreclosed housing for use by qualified tenants as rental housing; to rehabilitate foreclosed housing; for operating and holding costs; and for administrative costs. We note that the legislation provides for an administrative allowance of 4% and that it is available only to states. We strongly recommend a 5% administrative allowance *for each grantee* receiving this funding. This 5% allowance is consistent with CDBG funding made available to respond to the devastation caused by Hurricanes Katrina and Rita. Grantees receiving foreclosure relief/mitigation funding will be expected to carry-out extensive activities in acquiring and disposing of property. The simply do not have the funds to undertake these activities without an adequate administrative allowance.

Finally, we also support the shared appreciation provisions of Chairman Frank's legislation requiring that borrowers who are assisted to repay the federal government 20 percent of the difference between the net proceeds from the sale of the housing and the cost of acquisition of the housing.

Thank you for your favorable consideration of our views.

City of Boston
Thomas M. Menino, Mayor
Department of Neighborhood Development

Boston's Anti-Foreclosure Campaign

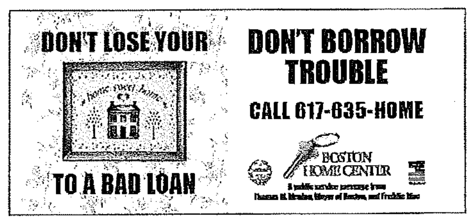
Boston Home Center

Initiative Profile April 2008

Boston's anti-foreclosure campaign has three primary elements: 1) Foreclosure Prevention: helping homeowners make good financial decisions to prevent them from ever getting into foreclosure trouble, 2) Foreclosure Intervention: helping homeowners that find themselves in foreclosure trouble keep their homes and 3) Foreclosed Property Reclamation: fighting rising neighborhood disinvestment by getting bank-owned foreclosed properties back into the hands of homeowners and responsible investors.

FORECLOSURE PREVENTION

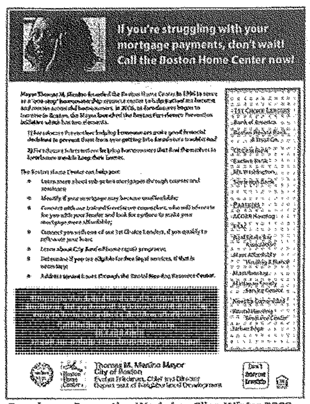
Helping homeowners make good financial decisions is by far the most cost effective way of keeping foreclosures in check.



HISTORY: Starting in 1999, with the launch of the ***Don't Borrow Trouble*** campaign, Boston recognized the perils of the growing predatory lending industry and warned the public about it. Television PSAs, billboards, bus shelter and transit ads all advised consumers to think twice before accepting a too-good-to-be-true mortgage offer. The Boston Home Center has, from the day it opened in 1996, included an education requirement as part of the process of receiving downpayment and closing cost assistance from the City. In 2004, in partnership with Freddie Mac, this program was enhanced with ***Credit Smart*** that offered financial educational services beyond just the homebuying process. Over 20,000 would-be homebuyers have been educated since 1996, and of the 4,400 homebuyers that received financial assistance from the City; their foreclosure rate to date is only 0.7% -- less than one-third the rate in the overall market.

TODAY: With the increase in foreclosures, the City has responded with expanded foreclosure prevention services. The ***First Choice Lenders*** program (October 2006) has signed up 6 major banks to 1) adhere to model loan origination and foreclosure prevention business practices, 2) help refinance people out of bad loans and 3) provide financial backing to the Foreclosure Prevention Fund that supports foreclosure prevention counseling and financial assistance. In 2007, homeowners have been able to refinance out of over $3 million in bad loans through First Choice Lenders.

CITY OF BOSTON
First Choice Lender 2006



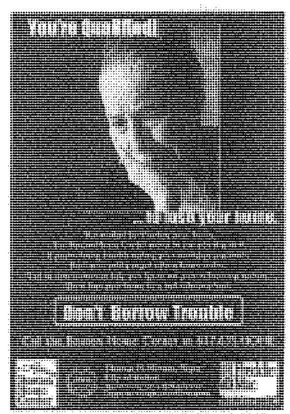
Foreclosure Prevention Workshop Flier, Winter 2008

In early 2007, Mayor Menino got the support of the Boston Legislative Delegation and filed State legislation to 1) require truthful labeling in all mortgage offers and advertising, 2) require licensing of mortgage originators, and 3) establish a statewide foreclosure prevention counseling network and a 60-day foreclosure freeze for homeowners signed up with one of these agencies. By the end of 2007, all three elements were largely enacted either through regulation or through the anti-foreclosure law signed by Governor Deval Patrick in October 2007.

Expanded educational services are now in place including ***Meet The Lenders*** workshops to help homeowners and homebuyers connect with First Choice Lenders; and two new seminar programs ***"Can You Really Afford "That" Mortgage?"*** and ***"What Homeowners Need To Know About Foreclosures, Before It's Too Late"*** are now being offered. These seminars are being directly marketed to homeowners that have recently taken loans from lenders that specialize in risky loans. New education and outreach efforts include a doorknocker campaign in communities with high foreclosure rates and outreach through community health centers.

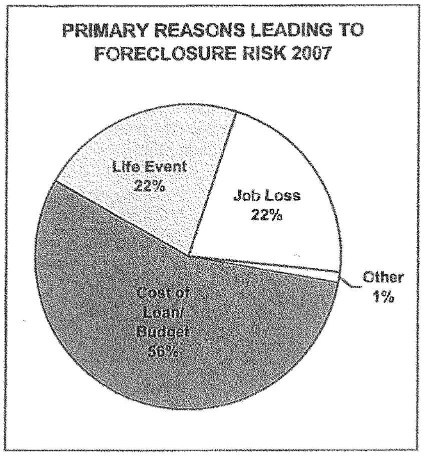
FORECLOSURE INTERVENTION

HISTORY: Boston has been closely tracking foreclosure activity in the city since the last foreclosure boom in 1992. Anticipating a new foreclosure problem with the rise of subprime lending, the City saw the earliest signs of the coming storm with an uptick in foreclosures at the end of 2005. This enabled the City to take action in 2006 and ramp up its foreclosure intervention services almost a year before the issue began claiming headlines in early 2007. In the spring of 2006 Mayor Menino gathered the major banks in Boston together to develop strategies to combat the coming foreclosure boom. From that effort came much of what is now Boston's anti-foreclosure initiative including the First Choice Lenders program



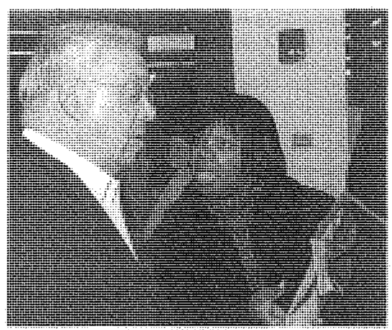
Foreclosure Prevention Bus Shelter Ad, 2007

TODAY: In mid-2006 Boston expanded its in-house foreclosure intervention counseling capacity and established a foreclosure call center (617-635-HOME) to help homeowners in foreclosure trouble. Ads were placed in bus shelters and on billboards encouraging homeowners in trouble to call this number to seek help. In late 2006 four community-based agencies were selected to provide expanded foreclosure intervention counseling and were trained by experts in the field such as the National Consumer Law Center and NeighborWorks America.



By the start of 2007, the ***Foreclosure Prevention Counseling Network*** was in place with four non-profit agencies providing counseling services in addition to the Boston Home Center. The call center at the Boston Home Center triages clients according to need/urgency and routes clients to the most appropriate service. A networked client-tracking and information system is in place that enables the Boston Home Center to keep track of all of its referrals as they progress through the foreclosure intervention process. In 2007, 200 homeowners averted foreclosure with assistance from the Foreclosure Prevention Counseling Network, preserving over $64 million in home values. Had all of those homeowners gone to foreclosure instead, Boston's 2007 foreclosure rate would have been 28% higher than it actually was. As can be seen from this chart more than half of the clients who have worked with the Foreclosure Prevention Counseling Network could not afford their mortgage payment based on their budget.

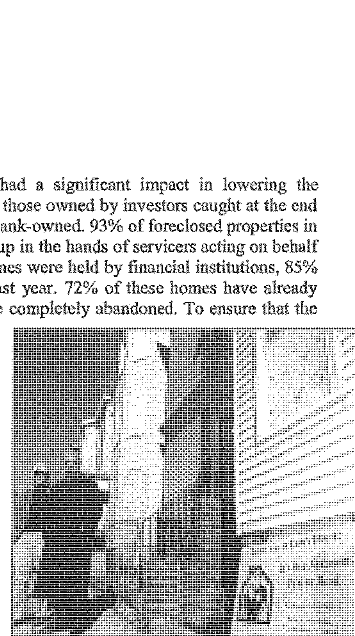
In March 2008, the Foreclosure Prevention Counseling Network was significantly expanded with the addition of ACORN Housing Corporation as a new counseling agency, and with a new partnership with the Real Estate Bar Association of Boston that allows for pro bono legal assistance to income-eligible homeowners facing foreclosure. Mayor Menino also hosted a Homeowner Foreclosure Prevention Workshop at which several major loan servicers met face-to-face with homeowners to discuss their options for a more affordable loan. 135 homeowners participated.


Boston homeowner explaining her mortgage problems to Mayor Menino at the Servicers Workshop

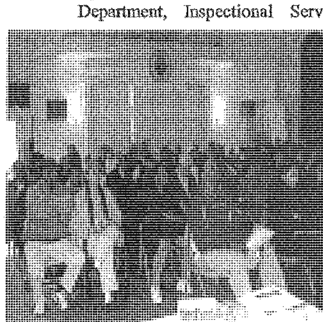
In April 2008, the Boston Home Center was awarded $224,000 in new funding from the Commonwealth of Massachusetts resulting from the new foreclosure law enacted in 2007. These funds will enable Boston to further expand the Foreclosure Prevention Network and offer a valuable new financial product. Homeowners that might otherwise qualify for a more affordable refinance loan or a loan modification are frequently thwarted because they have spent down all their savings trying to keep on top of their mortgage and don't have the cash needed to get the new loan. The Affordable Mortgage Assistance Loan will provide a subordinate deferred loan of up to $5,000 to bridge this gap.

FORECLOSED PROPERTY RECLAMATION

While the foreclosure intervention initiatives have had a significant impact in lowering the foreclosure rate in Boston, many properties, especially those owned by investors caught at the end of the property-flipping boom, end up foreclosed and bank-owned. 93% of foreclosed properties in Boston are not sold at the foreclosure auction and end up in the hands of servicers acting on behalf of the foreclosing lender. By January of 2008, 565 homes were held by financial institutions, 85% of which had become lender-owned within just the last year. 72% of these homes have already been emptied of all occupants and of those, 23% were completely abandoned. To ensure that the owners of these houses manage their properties responsibly, in February 2008 the City passed an Ordinance requiring the servicers of all properties that are either in foreclosure or already foreclosed on, to register with the City and maintain their property up to City codes.


Mayor Menino surveying the abandoned Hendry Street homes being purchased by the City

Where concentrated, these properties are having a devastating impact on the surrounding communities. Property values in these areas are dropping at four times the citywide rate, leading to even more foreclosures and rising crime as illegal activities take root in the vacant buildings. On February 14, 2008 Mayor Menino announced the creation of the Foreclosure Intervention Team (FIT), an interagency task force with representation from a wide range City agencies as diverse as the Boston Police, the Law Department, Inspectional Services, Neighborhood Development and the Boston Redevelopment Authority. Charged with delivering a coordinated and comprehensive attack on the forces of disinvestment in areas with high concentrations of foreclosed, abandoned properties, the FIT targeted the Hendry Street area of Dorchester as its most critical first priority. By the end of March, a block of four key abandoned properties were under agreement for the City to purchase from the foreclosing lender.


Hendry Street residents learning about available City resources for homeowners

In early April, 2008 over 100 area residents attended a workshop designed to help Hendry Street homeowners push back the forces of disinvestment. 79 residents have asked for follow up assistance for everything from deleading, to foreclosure prevention to home improvements. With City and residents working together, the City is confident that the Hendry Street neighborhood will soon be looking at a much brighter future.

FOR MORE INFORMATION

Contact the Boston Home Center at 617-635-HOME or e-mail HomeCenter.DND@cityofboston.gov.

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Office of the Mayor
Thomas M. Menino

Press Clips: City of Boston's Foreclosure Prevention Efforts

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City presses for upkeep of foreclosed properties
Binyamin Appelbaum | Boston Globe | January 30, 2008

The City of Boston is pressuring mortgage companies to maintain the foreclosed, vacant, and often deteriorating homes that dot the city's neighborhoods in growing numbers.

City Councilor Robert Consalvo plans to introduce an ordinance today that would require companies to register foreclosed properties with the city, identify who is responsible for maintenance, post their contact information on the property, and pay a $100 annual fee on each vacant home.

Consalvo said the city is spending thousands of dollars to maintain and secure vacant houses owned by companies that are not meeting their obligations as Boston property owners. He said problems include unlocked doors, undrained pools, unplowed walks, untrimmed hedges and lawn trash.

The vacant homes are both an eyesore and a safety hazard, he said.
"We shouldn't be footing the bill for these large mortgage companies," Consalvo said. "They should have to maintain them just like any other homeowner in this city."

Mayor Thomas M. Menino met last week with representatives of several of the largest companies that manage foreclosed properties in Boston, according to spokeswoman Dot Joyce. She said the companies agreed to post contact information on vacant buildings and to post "No Trespassing" signs to help police keep people out of the buildings.
The proposed ordinance, Joyce said, "is a step in the right direction. It's in line with what the mayor has been saying and doing in meeting with mortgage servicers."

Consalvo's proposal is modeled on similar laws recently passed in other cities. The problem is not just the rising number of foreclosures, but a slow real estate market that means homes are not easily resold. Instead, they sit vacant.

Boston requires all homeowners to maintain their properties. Most of the problems cited by Consalvo already are violations of city codes. But it is often difficult for the city to identify or contact the owners of foreclosed buildings.

A house on Chesterfield Street in Hyde Park was foreclosed in June 2006. It has been vacant since. But the pool out back was full of water until the city recently paid to drain it.

On Buckingham Street, one block away, the city spent $1,737 in September to board up another vacant, foreclosed home, according to a lien filed against the former owner. In December, after calls from neighbors, city employees returned to clear the property of almost a full dumpster of trash.

Both homes remain empty, plastered with plywood boards and warning signs.
Glenn Preston, who lives nearby, said he and his wife tried to sell their home this fall, but the condition of the vacant home and its trashed yard made it difficult to attract a buyer.

"We'd have an open house and people would drive down our street and they would just keep on driving," he said.

Kevin Cuff of the Massachusetts Mortgage Bankers Association said he questioned the need for new laws. Many foreclosed homes are well-maintained by mortgage companies eager to resell the properties. And Cuff said a state law passed this fall already created a database to help authorities track ownership of foreclosed properties.
"I see some redundancies in some of these actions that try to prevent activities at properties in foreclosure and to stabilize neighborhoods," Cuff said. "I'm not certain an additional ordinance is going to add something."

But cities increasingly are concerned about the impact of foreclosed homes on fragile neighborhoods. Consalvo said the subject was becoming one of the most common complaints council members hear from constituents.

"The police are responding to kids partying in there, people squatting, people using these houses to deal drugs," he said. "You've got sidewalks not shoveled. You have hedges that have grown so big that they block access on the sidewalk. You have pools that end up being filled with stagnant green water. "Someone has to be held accountable."

Hub of the crisis is Hendry Street

Editorial | Boston Herald | February12, 2008

On Hendry Street in Dorchester the hows and whys of what led to the national subprime lending crisis seem, for the moment, strangely beside the point.

Along that stretch of boarded-up buildings - a veritable Ground Zero of foreclosures in Boston, as the Herald's Laura Crimaldi reported on Sunday - the debate over whether unscrupulous lenders practiced deceit or whether some people simply chose to borrow more than they could ever pay back, have given way to the question of WHAT TO DO.

Because no matter how we got here, leaving seven boarded-up houses to rot on one street in an already struggling neighborhood (with six more empty properties on neighboring streets) is a formula for certain disaster.

``I have no hope for this neighborhood," Terry Johnson, 43, who lives in an apartment on Hendry Street, told the Herald. ``I want to move out of here." He is not alone, nor is his neighborhood. In Boston last year, 703 properties were foreclosed, a third of them in Dorchester. Citywide there are 127 abandoned properties.

Already, city inspectors have found evidence of squatters, drugs and guns at 19-21 Hendry St. Boston police targeted another property on a tip that a shooting suspect might be holed up there, though they found the building - you guessed it - empty.

And while the city has a responsibility to stay on top of safety issues, the mysterious paper owners of some of these buildings must be held accountable for the state of their properties, too. Several are presently on the market, although you'd have to be one gutsy shopper to stake a claim there right now.

Some have argued for the city to buy the buildings and rehab them, though given financial realities that seems far-fetched. The city's community development corporations are embarking on an intriguing effort to secure private financing and some public grants to buy up abandoned properties in neighborhoods such as Hendry Street and convert them into rental units. For neighbors this would seem to offer the greatest potential, but it could take years.

In the end, as columnist Peter Gelzinis points out, waiting around for these properties to regain their inflated value isn't going to cut it. Like it or not, and no matter who is to blame, city officials must put their shoulders to the wheel and devise a solution to this mess.

Mayor: 'We will fix Hendry Street now'

Laura Crimaldi | Boston Herald | February 14, 2008

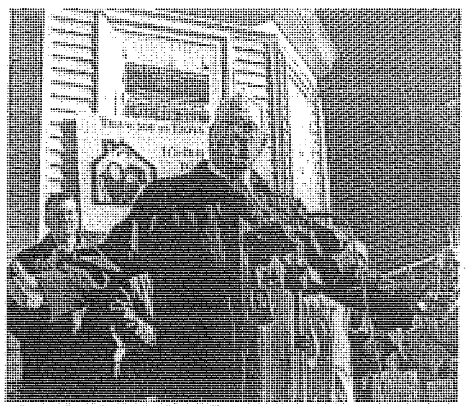

Photo by Angela Rowlings

An army of city workers and housing officials led by Boston Mayor Thomas M. Menino descended on Dorchester's Hendry Street this morning to start a rescue effort in the blighted neighborhood ravaged by foreclosure, abandonment and what officials describe as unscrupulous investors.

"This is a cancer that we have in our city, taking over our neighborhoods. We will not tolerate this cancer," said Menino, surrounded by the city's top officials. "We are going to take over this situation in this neighborhood and other neighborhoods of Boston."

The effort, dubbed the "Hendry Street Project" on new signs affixed to the boarded-up properties, calls for the city to acquire the empty units at dramatically reduced rates and rehabilitate them as affordable housing. The city also is seeking to acquire at least five properties where the owners are not paying taxes, city officials said.

On Sunday, the Herald reported seven homes on Hendry Street have been left boarded-up or empty as a result of foreclosures, among them two triple-deckers condemned by city inspectors. Around the corner on Coleman and Clarkson streets, six more properties stand boarded-up and decrepit due to abandonment or foreclosure.

Countrywide Financial, Washington Mutual and Wells Fargo, which service some of the mortgages in foreclosure on Hendry Street, have agreed to cooperate with the city's redevelopment effort by negotiating to sell their units at a deep discount, city officials said.

Pat Canavan, the mayor's housing advisor, said the city is hoping to settle on sale prices around $30,000 for each condo unit. The minimum estimated cost of renovating each unit is $100,000, said Sheila A. Dillon, deputy director of housing at the Boston Redevelopment Authority.

The arrival of city clean-up crews and graffiti busters, who removed gang-related tags that covered many of the empty houses, sent a wave of cautious optimism through the neighborhood.

"It's good that they are going to make progress," said Terry Johnson, 43, who has lived on Hendry Street for three years. "They let the problem get out of hand."

City moves to acquire foreclosed properties

Binyamin Appelbaum | Boston Globe | February 14, 2008

Boston is moving to buy or seize several foreclosed condominiums in Dorchester in a significant expansion of the city's efforts to prevent abandoned buildings from blighting fragile neighborhoods.

Mayor Thomas M. Menino plans to disclose today the city's intention to acquire the properties, the first such effort in recent memory. He also will propose a new ordinance that would impose fines on owners of abandoned buildings.

Menino will elaborate on the city's plans during a morning visit to Hendry Street in Dorchester, where the recent foreclosures of several buildings are destabilizing the neighborhood, city officials say.

"What's happening in that neighborhood is unacceptable," said Dot Joyce, a spokeswoman for the mayor.

The growing focus on foreclosed properties reflects a new reality. Officials so far have failed in most cases to prevent foreclosures. As a result, city officials are increasingly trying to limit the impact foreclosures have on the surrounding neighborhood. If the city can't help the people who lose their homes, it hopes to help their neighbors.

The problems on Hendry were the subject of a Boston Herald story Sunday. Mortgage companies have foreclosed on eight condos and houses, and four more are in the foreclosure process. The Herald reported that one abandoned home was condemned after city inspectors found it was being used and trashed by squatters.
Officials say the street has quickly become a dumping ground, including for abandoned cars.

Menino responded by pledging to clean the street and to help the area be redeveloped, in part by acquiring the problem properties. The city is exploring several options, including seizing the buildings for unpaid taxes.

"We're just going to get in there and begin to do something and not wait for all the pieces to be lined up," said Pat Canavan, the mayor's housing adviser.
If the Hendry Street effort works, officials say, the city would consider acquiring properties in other areas.

At the same time, the city is stepping up efforts to get the mortgage companies that now own foreclosed properties to take better care of them, or sell them, without government intervention.

The Globe reported yesterday that Providence Mayor David Cicilline is seeking an ordinance that would fine the owners of vacant buildings 10 percent of a building's value if it remains vacant a year after receiving a warning from the city. The massive fine is intended to encourage quick sales by making it cheaper to sell at a loss than to wait for better times.

Menino's office said yesterday the mayor would use the Providence ordinance as a model for one he will soon propose.

Menino met with several of the largest mortgage companies last month. The meeting produced a draft agreement in which the lenders pledged to improve maintenance of foreclosed properties and promised to work with the city on selling those buildings as soon as possible.

A measure filed by Councilor Robert Consalvo would require companies to pay $100 for each vacant property, provide the name of a company responsible for maintenance, and post the information on the property.

Hendry St. rescue plan underway

Binyamin Appelbaum | Boston Globe | February 15, 2008

Dozens of city employees and contractors flooded foreclosure-plagued Hendry Street in Dorchester yesterday for a concentrated burst of cleaning and staging that felt like the bustle on a movie set.

Workers installed new street signs, removed old cars, blasted paint from buildings, and swept trash from the street.

Just as Mayor Thomas M. Menino prepared to address a press gaggle, workers attached a sign to the building behind him announcing "The Hendry Street Project."

City officials said three-block Hendry Street may host Boston's largest concentration of foreclosed properties. Mortgage companies have seized at least eight homes on the street. All sit empty, with boards on the windows and doors. The area has become a dumping ground and a haven for criminal activity, officials and residents say.

Menino said the city is determined to revive the street.

"This is a cancer that we have in our city that's taking over a neighborhood," he said. "We will not tolerate this cancer."

The mayor said the city is negotiating to buy several of the houses for as little as $30,000. It is moving to seize other foreclosed properties on which the owners have not paid taxes. They would be renovated and added to the inventory of subsidized rental housing.

Ronald Davis has lived on Hendry Street for 25 years. He said conditions have never been as bad as in the past year. As the homes around him emptied last summer, he tried to sell his house, but could not find a buyer.

"This is nice," he said yesterday. "But it would have probably helped more before so many of them went down."

The intervention will not immediately serve as a model for other parts of the city, officials said. Buying and renovating homes is expensive, and the city has not identified other areas with similar concentrations of vacant property.

But officials said they are working on a broader model for dealing with foreclosed properties, including significant fines for owners who sit on vacant properties.

Menino on a mission

Mayor moves in to cure neighborhood `cancer'

Laura Crimaldi | Boston Herald | February 15, 2008

Shellshocked Hendry Street residents yesterday spilled out into their blighted Dorchester neighborhood to watch Boston Mayor Thomas M. Menino and a phalanx of city workers take the first step to reviving their block, nearly gutted by the foreclosure crisis.

``It's good," said Theresa Jones, who lives across the street from four boarded-up triple-deckers on Hendry Street. ``At least they'll put some people in those houses."

Menino led a small army of cleanup crews, graffiti busters, outreach workers and police to the Meeting House Hill neighborhood to announce efforts to buy some of the foreclosed and abandonded properties and rehabilitate them.

The mayor, who announced the creation of a citywide Foreclosure Intervention Team, ordered signs hung on the buildings that read: ``This is not an empty house. It's our neighbors' future homes. The Hendry Street Project."

``This is a cancer that we have in our city, taking over our neighborhoods. We will not tolerate this cancer," Menino said.

On Sunday, the Herald revealed how a spate of foreclosures brought about by shady mortgage practices has left seven Hendry Street properties boarded up, including two triple-deckers condemned by the city last year.

Those properties face Coleman and Clarkson streets, in the Meeting House Hill area, where six other properties are vacant because of foreclosure or abandonment.

Residents, who have been living in a virtual ghost town, were adamant that they will not be satisfied if the cleanup and outreach that accompanied Menino's visit does not amount to permanent change.

``Don't make this a parade today, then forget about it," said Kristin Wilson, who lives on Hendry Street with her two children. Last week, Wilson told the Herald that she was ``desensitized" to conditions on the destitute block.

Countrywide Financial, Wells Fargo, and Washington Mutual, which service some of the mortgages in foreclosure in the area, have agreed to sell their units at a deep discount, officials said.

The city is planning to acquire five properties that already have tax liens. Three of those are on Hendry and the others on Coleman and Clarkson, said Pat Canavan's the mayor's housing adviser.

Canavan said the city hopes to settle on a sale price of $30,000 for each unit. The city also has contacted private realtors marketing condo units in 19-21 Hendry St., said Sheila A. Dillon, deputy director for housing at the Boston Redevelopment Authority.

The estimated minimum renovation cost per unit is $100,000, Dillon said.

Outreach workers also canvassed the neighborhood to tell residents landlords have no right to evict them if the house where they are living falls into foreclosure.

``It's good that they are doing this to make progress," said Terry Johnson, 43, who has lived on Hendry Street for three years. ``They let the problem get out of hand before they solved it."

A foreclosure virus spreads

Editorial | Boston Globe | February 15, 2008

THE MOST powerful agencies in city government descended on Hendry Street in Dorchester yesterday hoping to contain a virus of foreclosures. But by the time the mayor, police commissioner, and housing inspectors had arrived, it appeared that urban rigor mortis had already set in.

About a dozen properties in foreclosure line Hendry, Coleman, and Clarkson streets in a low-income neighborhood that the Menino administration has targeted for public safety, recreation, and economic development improvements over the past five years. Standing outside a boarded-up three-decker at 17 Hendry St. - one in a long string of abutting properties in the same straits - Mayor Menino vowed that he would restore value to the neighborhood, even if it required the city to redevelop the properties itself. But such a strategy can work only if the city can seize a property for tax delinquency. Most of the blighted houses in the Hendry Street area, however, don't owe back taxes. Redeeming these properties requires a more aggressive approach.

Menino often saturates a high-crime area with massive resources. Sometimes, the troops withdraw not long after the departure of the TV crews. But there are signs that the mayor is deadly serious about his new "foreclosure intervention team." William Sinnott, the city's chief attorney, is investigating whether state banking officials could freeze the assets or strip the licenses of mortgage lenders who snub efforts to bring the properties up to code or resist putting them back on the market quickly. City officials also hope to work more closely with the state attorney general to uncover if investor fraud or other criminal activity might be at play.

More than 700 properties in Boston fell into foreclosure last year, mostly products of a subprime mortgage market that lured financially unstable buyers with low introductory rates. Unfortunately, the time has passed for debating whether venal mortgage brokers or gullible buyers are to blame. City officials expect about 2,000 homeowners to face sharp increases in the cost of their subprime mortgages between now and the end of next year. That creates the potential for many more Hendry Streets to come.

City officials say they are getting decent cooperation from major mortgage servicers in the area, such as Wells Fargo But they also say they are struggling to make contact with their subsidiaries, such as the Iowa-based America's Servicing Co. It will require much persistence to peel back this smelly onion.

Sloppy mortgage programs in the 1960s also led to a rash of foreclosures in Dorchester. City government looked away. It took decades to restore the properties and redeem the neighborhoods. Menino, at least, knows this history and understands how a repeat could ruin his city and his legacy.

City, lawyers to go to bat for homeowners
Volunteers to help thwart foreclosures
John C. Drake | Boston Globe | March 14, 2008

With hundreds of Boston families facing the threat of foreclosure in the next year, City Hall is responding with a novel plan to field an army of area lawyers to help homeowners, for free, to stay in their homes.

About 750 adjustable-rate mortgages, those with initially low interest rates that balloon after a few years, are scheduled to reset to higher rates between May and October this year, according to data compiled by the city's new Foreclosure Intervention Team.

With each rate hike comes another potential foreclosure, as homeowners face skyrocketing monthly payments. Each foreclosure probably means another abandoned house on a neighborhood street.

So the city's Department of Neighborhood Development plans to refer homeowners threatened with foreclosure and tenants facing eviction to lawyers with the Boston Real Estate Bar Association. The lawyers, who have agreed to take the cases pro bono for city residents whose incomes fall below 80 percent of median income, will handle their cases, including actions to block lenders from improper foreclosures, analyzing refinancing options, or seeking bankruptcy protection.

"One of the biggest gaps we've seen is the lack of legal assistance for homeowners facing foreclosure," said Aaron Gornstein, executive director of the Citizens' Housing and Planning Association. "It's a very complicated process that could be intimidating and overwhelming. And homeowners simply can't afford in most cases to pay an attorney to help them."

The offer of free legal help follows other city-based efforts to deal with rising foreclosure rates, a national problem with distinctly local effects.

"Boston is doing a significant amount to work with homeowners to try to prevent foreclosures, certainly more than most other cities around the country," Gornstein said.

Bill Cotter of the Department of Neighborhood Development's Home Center said the city already has information on about 500 active cases that could potentially benefit from a lawyer's help.

"The first step is to help people in foreclosure," said Kurt A. James, chairman of the affordable housing committee of the Boston Real Estate Bar Association.

Mayor Thomas M. Menino established the Foreclosure Intervention Team earlier this year to connect various departments that handle the negative fallout. Since its establishment, city officials have begun identifying, and in a few cases purchasing, houses abandoned after foreclosures and cleaning up neighborhoods blighted by foreclosures. The city is also contacting tenants to tell them about their rights if their landlord loses a property to foreclosure.

Bruce Marks - chief executive of the Boston-based Neighborhood Assistance Corporation of America, which works aggressively with lenders to get them to restructure predatory loans - said many of the city's efforts are laudable, but that they should be more focused on heading off foreclosures than dealing with their effects.

"The good news is they're trying," he said yesterday. "The bad news is the focus is on process, not on solutions."

City officials also said yesterday that they had contracted with the Dorchester office of nonprofit mortgage broker ACORN Housing Corp. to provide counseling services to area homeowners who face loss of their home.

Theresa Naylor, regional director for ACORN Housing, said workers with the firm would begin seeking homeowners who are facing foreclosures, even if they have not gone to the city for help. She said a lot of homeowners brush off letters from banks or shun help out of embarrassment and then find that it is too late to avoid losing their home.

Menino announced the stepped-up efforts at a Beacon Hill reception honoring author and former federal housing official Nicolas P. Retsinas, whose book "Our Communities, Our Homes," cites Boston's housing efforts. Menino described Retsinas as a key adviser on housing issues.

"Housing is not a stylish issue, but it is of paramount importance to establishing stronger cities," Menino said at the gathering of affordable-housing advocates and bankers.

City workshop helps you fight foreclosure

Laura Crimaldi | Boston Herald | March 29, 2008

Boston homeowners who risk home foreclosure because of mounting mortgage debt will meet face-to-face today with their lenders about qualifying for new loans they can actually afford.

The city-sponsored Homeowner Foreclosure Prevention Workshop will be held from 10 a.m. to 4 p.m. at Madison Park High School in Roxbury, according to the Department of Neighborhood Development (DND).

"Mortgage servicer representatives will be able to meet one-on-one with the owners to determine if they are eligible for a more affordable loan," said Boston Mayor Thomas M. Menino. "It will be one session, first-come-first serve, so we're asking them to please come early."

Representatives from Countrywide Financial, Wells Fargo Home Mortgage, Washington Mutual, CitiMortgage and HomEq Servicing will be available to meet with homeowners about their loans, said DND spokeswoman Lucy A. Warsh.

There will also be opportunities to meet with credit counselors and local, nonprofit foreclosure counseling agencies and attend homeowner workshops. Menino said the city is currently handling 500 foreclosure cases through its Foreclosure Prevention Counseling Network.

"We hope to help people, prevent them from going into foreclosure," Menino said.

Warsh said that steps have been taken to protect the privacy of homeowners who want to attend. The mortgage companies mailed about 1,400 notifications to consumers with risky loans in envelopes affixed with the return address for Boston City Hall. The notices include a letter from Menino and a list of documents that the mortgage companies want consumers to bring.

All participants will be assigned a number and have a chance to meet with representatives from their mortgage lender in a classroom, Warsh said.

The workshop is the latest in a line of anti-foreclosure efforts that Menino began rolling out last month, starting with the announcement of a major revitalization project in Dorchester's Hendry Street neighborhood.

In Boston, Residents Seek Face-to-Face Advice to Avoid Foreclosure

Katie Zezima | NYTimes | March 30, 2008

BOSTON — Carol Anderson has gone the entire winter without heat or hot water in her home here, because the payments on her adjustable rate mortgage have ballooned to

$5,000 a month and she cannot afford paying a gas bill.

Carol Anderson showed her mortgage papers to Mayor Thomas M. Menino of Boston on Saturday at a workshop organized by the city to help people restructure loans and save their homes.

Desperate for help, Ms. Anderson attended a workshop on Saturday organized by Mayor Thomas M. Menino of Boston intended to help the city's homeowners avoid foreclosure. Representatives from five mortgage companies met with clients to try to restructure loans. The workshop also offered classes on homeownership, credit ratings and other financial topics, in addition to providing residents with access to foreclosure prevention counselors.

"It's a nightmare trying to keep our head above water," said Ms. Anderson, who lives in the Dorchester neighborhood of Boston. "I have to pay my mortgage. It's the first priority, above everything."

The daylong seminar, held at a high school, was organized by the Department of Neighborhood Development, which started a Foreclosure Prevention Initiative in late 2005 as it saw the number of foreclosures steadily rising. It provides residents with counseling services and, in many cases, helps them restructure mortgages.

Foreclosures in Boston increased 169 percent from 2006 to 2007, according to city officials. Most are concentrated in Dorchester, Roxbury and Mattapan, three of the city's poorest neighborhoods. The mortgage providers identified at-risk borrowers who lived in Boston and mailed them a letter notifying them of the workshop. About 1,500 households received the letter, which was written by the city. It is the first workshop the city has held with mortgage lenders and their customers.

"This is the only way to give peace of mind to a lot of folks who are in danger of losing their homes," Mr. Menino said. "You don't ever talk to real people about a mortgage. It's press 1 for this, 2 for that."

Sophia Mitte of Mattapan said she spent seven months trying to modify her Wells Fargo loan, only to be notified by the company that her home was in foreclosure and a sale date was planned for April. Ms. Mitte said her son had to drop out of college and join the Marines because her family was no longer able to afford his tuition payments because of their mortgage. She also pays $300 a month for experimental cancer drugs.

"I have to save my house," said Ms. Mitte, who has owned the home for 13 years. "I have three kids, and we have nowhere else to go."

Ms. Mitte said she met with a Wells Fargo representative Saturday, who said the company would work with her and her loan provider to reach some type of agreement that would help Ms. Mitte keep her home.

"I feel relieved," Ms. Mitte said. "I finally met with someone face-to-face. I feel as though he was being honest with me and he really wants to help. If they showed up, they must be honest about trying to save people's homes."

Spokeswomen for Washington Mutual and Countrywide, two of the mortgage providers at the workshop, said the companies often participated in such seminars and worked with federal and state officials to help people keep their homes.

"Our customers are telling us that they enjoy the personalized touch and the friendly manner that our employees bring to these difficult discussions, and we look forward to expanding our efforts in the coming months," Lisa Friedman, a spokeswoman for Washington Mutual, wrote in an e-mail message. "We view foreclosure as a remedy of last resort and want our customers to know that our primary goal is to keep them in their homes with payments they can afford."

Yuderka de la Cruz , from the Hyde Park neighborhood, bought her home in 2005 and refinanced a year later with two balloon mortgages. She now pays $3,400 a month, and her interest rates will increase by 3.9 percent in August.

"They didn't explain it real well when I went in," said Ms. De la Cruz, who hoped to restructure her financing plan. "I'm going to lose my house. I don't want to lose my house and put my kids on the street."

Ms. Anderson met with a representative from Urban Edge, a nonprofit community development corporation that is helping inner-city residents escape foreclosure.

Robert J. Credle, director of community programs at Urban Edge, said it planned to speak to Ms. Anderson's lender about combining her two mortgages into one fixed rate, 30-year mortgage.

"It isn't going to be easy," Mr. Credle said, "but it is doable." Ms. Anderson said she was encouraged.

"I feel hopeful," she said. "I'm hoping they make it right."

Menino: Give them shelter

Face time with lenders valuable for homeowners

Laura Crimaldi | Boston Herald | March 30, 2008

Dozens of Boston-area homeowners saddled with mounting mortgage debt met face-to-face with their lenders yesterday to try to negotiate more affordable payments and keep the foreclosure auctioneer off their doorsteps.

Homeowners started lining up outside Madison Park High School in Roxbury at 7 a.m., three hours before representatives from major mortgage servicers began meeting with borrowers, according to event organizers.

"We feel a little relief," said Lena Gurley-Davy, a certified nursing assistant from Dorchester, who met with a HomEq representative about refinancing the mortgage on her Bowdoin Place home.

When Gurley-Davy and her husband, Terbertus, walked into the city-sponsored workshop they carried with them the weight of a whopping 9.6 percent interest rate on the home they bought in 2004. Their interest rate jumped from 8.1 percent to 9.6 percent March 1, Gurley-Davy said.

HomEq agreed to return the interest rate to 8.1 percent. By Tuesday, the couple will hear whether HomEq will shave another point off the rate to reduce their monthly payments to a more affordable $3,800, she said.

Like many homeowners at yesterday's event, Terbertus Davy said efforts to reach their lender in the past about a loan modification had failed.

"One of the folks who was in danger of losing their home said it was the first time (they) were able to speak with (their) servicer face-to-face," said Mayor Thomas M. Menino, who chatted with some of the 135 homeowners as they waited to hear their number called for a coveted face-to-face meeting.

"Today everything is automated. Press one for this. Press two for that. By them sitting down talking with the servers they're able to work out their problems," Menino said.

The mayor's been rolling out an arsenal of anti-foreclosure efforts since February, when he descended on Hendry Street in Dorchester and vowed to restore the foreclosure-ravaged neighborhood that was spotlighted in the Herald.

He set up a Foreclosure Intervention Team and City Hall war room to tackle the blight crisis and has met with representatives from Countrywide Financial, Wells Fargo Home Mortgage, CitiMortgage and HomEq Servicing.

U.S. Sen. John F. Kerry (D-Mass.) stood by Menino and pledged to continue to fight for $10 billion in federal mortgage relief, which was left out of the national economic stimulus package approved last month. Under a provision sponsored by Kerry and U.S. Sen. Gordon Smith (R-Ore.), the Bay State would receive $211 million to help homeowners facing foreclosure refinance at a better rate.

"Nobody can overstate what happens as the foreclosures start to take hold. In Dorchester, Mattappan, Roxbury, Hyde Park, you got about 76 percent of all the foreclosures in this city," Kerry said. "These folks are really scared and it hurts the community."

While the event was sponsored by the Department of Neighborhood Development, the mortgage companies also mailed notifications to out-of-town borrowers in such places as Quincy and Malden.

One borrower, Marie R. Darcelin, said she is five months behind on the $3,350 monthly mortgage payments on a home she owns in Quincy. She said she works two jobs as a waitress and phlebotomist, but still can't keep up with the payments to Countrywide Financial.

"I keep paying, paying, but it's still not enough," she said.

Owners of Hub homes get a lift

Event tackles foreclosure risk

Lisa Wangsness, | Boston Globe | March 30, 2008

Vulnerable homeowners sat across tables from their mortgage servicers in quiet classrooms at Madison Park High School yesterday, trying to strike new deals.

The city's Homeowner Foreclosure Prevention Workshop, which organizers said was the first event of its kind in Massachusetts, allowed scores of borrowers to find ways to stave off financial ruin by meeting face to face with lenders, who have been increasingly willing to modify loan terms as the foreclosure crisis has spread. Many homeowners discovered they might qualify to temporarily lower their interest rates or delay delinquent payments without penalty, modifications they said could mean the difference between keeping and losing their houses.

"I can breathe," said Tasha Brown, 35, a single mother of two young children. Brown learned in a meeting with Countrywide representatives yesterday that she may be able to reduce her monthly mortgage payment.

Brown, who earned about $40,000 last year running a day care service out of her home, said she had fallen behind on her payments on her adjustable-rate mortgage, which had risen to about $2,800 a month.

She has been unable to sleep lately, worrying about what would happen to her family if she lost the house. "When you're in fear, you're paralyzed," she said. "I don't even open the mail."

Communication between mortgage servicers and homeowners facing foreclosure is often difficult or nonexistent. Lenders can be hard to reach or unwilling to modify a loan, said several homeowners who attended yesterday's workshop, and homeowners are often too intimidated to reach out for help. Mayor Thomas M. Menino discussed the idea of holding one-on-ones between lenders and borrowers at a meeting with major lenders in January.

"One of the folks who are in danger of losing their homes said it was the first time we were able to speak with our servicer today, face to face," Menino said yesterday morning after greeting some of the people who attended the workshop. "Today everything's automated: Press one for this, press two for that. By them sitting down and talking with their servicer, they were able to work out their problems."

More than 700 properties in Boston fell into foreclosure last year, about three-quarters of them in Dorchester, Roxbury, Hyde Park, and Mattapan. Yesterday's workshop was one of a host of efforts the city has made in the past two years to contain the crisis, including the creation of a Foreclosure Intervention Team to set policy, a counseling network to guide struggling homeowners, and a partnership with the state Real Estate Bar Association to provide free legal services for low-income homeowners in danger of foreclosure. The Foreclosure Prevention Initiative collectively helped 212 homeowners avoid foreclosure between 2006 and 2007, according to the city.

Senator John F. Kerry, who dropped by yesterday's forum, said he was working to secure $10 billion for states to use to help first-time home buyers and prevent foreclosures.

"That means money in the hands of the mayor and others to be able to negotiate against foreclosure, to keep people in their homes, and to make a difference in their communities," he said.

To draw at-risk homeowners to yesterday's workshop, the city tapped five leading mortgage servicers - Countrywide, Wells Fargo, Washington Mutual, Citi, and HomEq - to mail letters to clients in dire financial straits, inviting them to meet privately with representatives at the workshop.

"The lender has no incentive to see folks getting foreclosed," said Bill Cotter, deputy director of home buyer services at the city's Department of Neighborhood Development.

More than 1,400 letters were distributed, mostly in Boston. News of the workshop also traveled by word of mouth, and in a sign of how desperate some homeowners were to get help, people from as far away as Lawrence came to seek relief and advice. Organizers said 135 people attended the workshop, although not all met with mortgage servicers because their firms were not represented.

Many of those who came appeared to have been victims of scams or bad dealings. Some had bought houses they clearly could not afford; others agreed to borrow money at high rates.

Carol Anderson, a hospital administrator in her 50s who lives in Dorchester, said she and her husband, a carpenter, make $70,000 to $80,000 a year combined and borrowed $465,000 to purchase their home with no down payment. To finance it, they agreed to two mortgages with rates of 11 percent and more than 9 percent.

"I wanted a house," she said. "That was the best opportunity."

The total monthly payments of about $3,400 were just barely affordable, she said, until one day she opened her bill and was stunned to learn that the larger loan was adjustable. Now her payments are more than $4,800 a month.

This winter they kept their gas heat off and made do with electric space heaters.

She came to yesterday's workshop hoping to speak with her mortgage servicer, but the company was not there. She did speak with a counselor, though.

"I'm hoping I can get a mortgage I can pay," she said. "I feel hopeful."